

STRICTLY CONFIDENTIAL (FR) CLASS II-FOMC

*Materials for
Staff Presentation to the
Federal Open Market Committee*

February 12, 1985

Principal Assumptions

Monetary Policy

- Growth of M1 of around 6½ percent during 1985 and 5½ percent in 1986.

Fiscal Policy

- Deficit-reducing actions of around \$50 billion for FY 1986.

Other

- Oil prices decline 10 percent over forecast period.
- Foreign exchange value of the dollar declines 8 percent per year.

Federal Budget

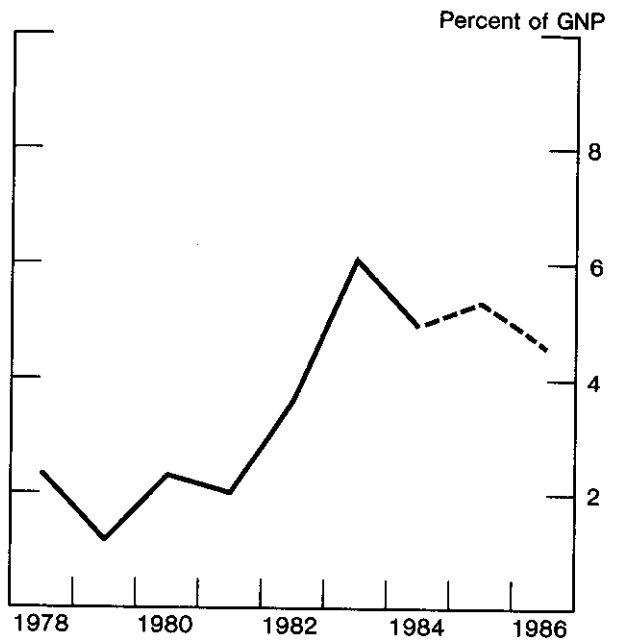
Unified Budget, Fiscal Year, Billions of Dollars

	1985		1986	
	Staff	Administration	Staff	Administration
Outlays	941	947	976	972
Receipts	735	737	787	794
Deficit	206	210	189	178
Structural Deficit	176	n.a.	167	n.a.

Deficit-Reducing Actions

	Billions of dollars
	1986
Total	50
Expenditures	40
Nondefense	20
Defense	20
Tax increases	10

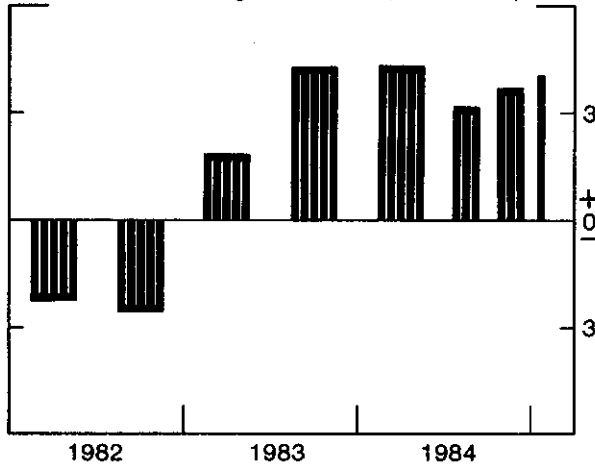
Deficit



Current Indicators

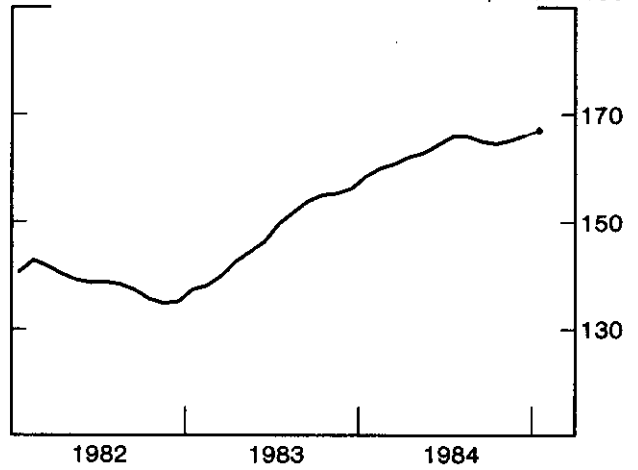
Nonfarm Payroll Employment

Change, annual rate, millions of persons



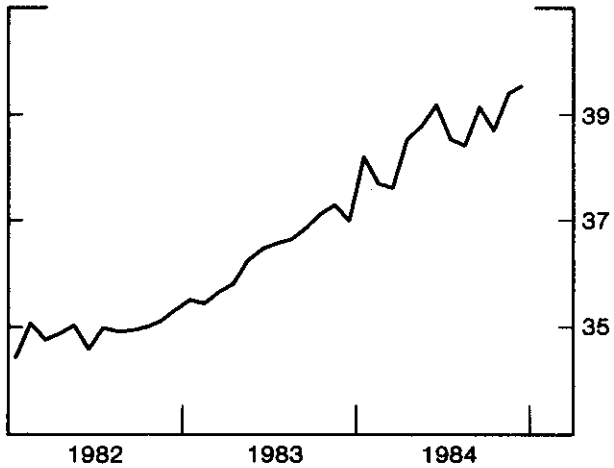
Industrial Production

Index, 1967=100



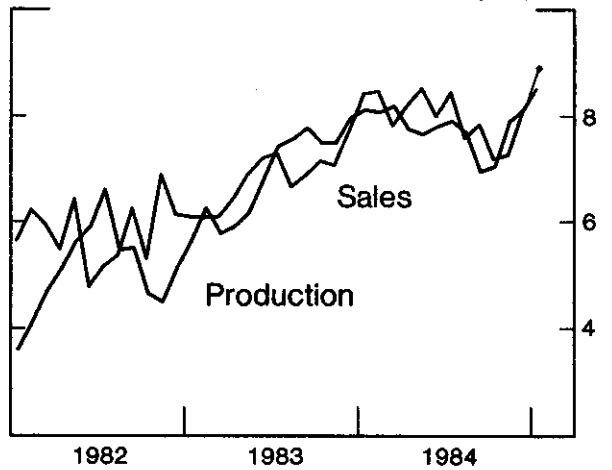
Real Retail Sales

Billions of 1972 dollars



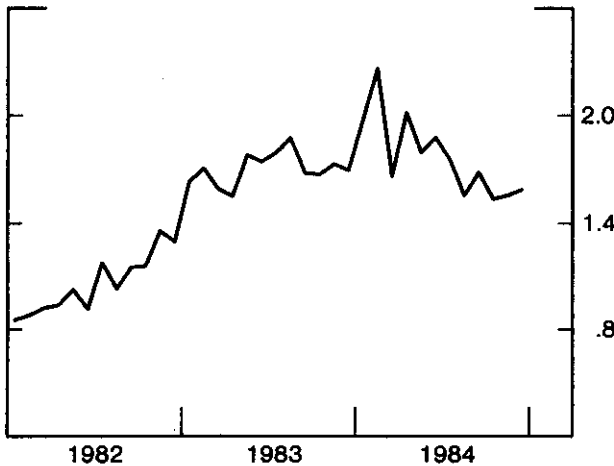
Domestic Autos

Millions of units



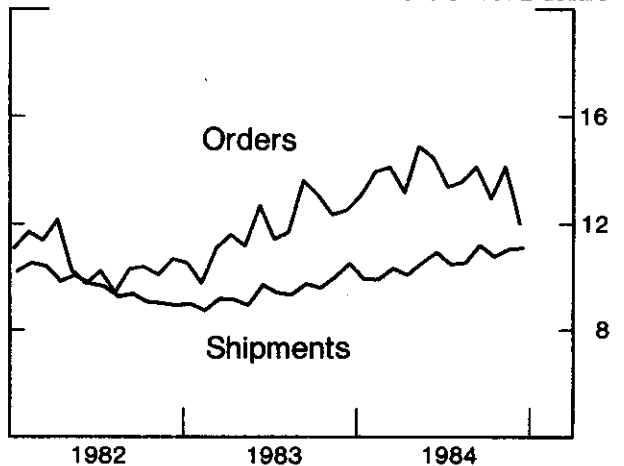
Housing Starts

Millions of units

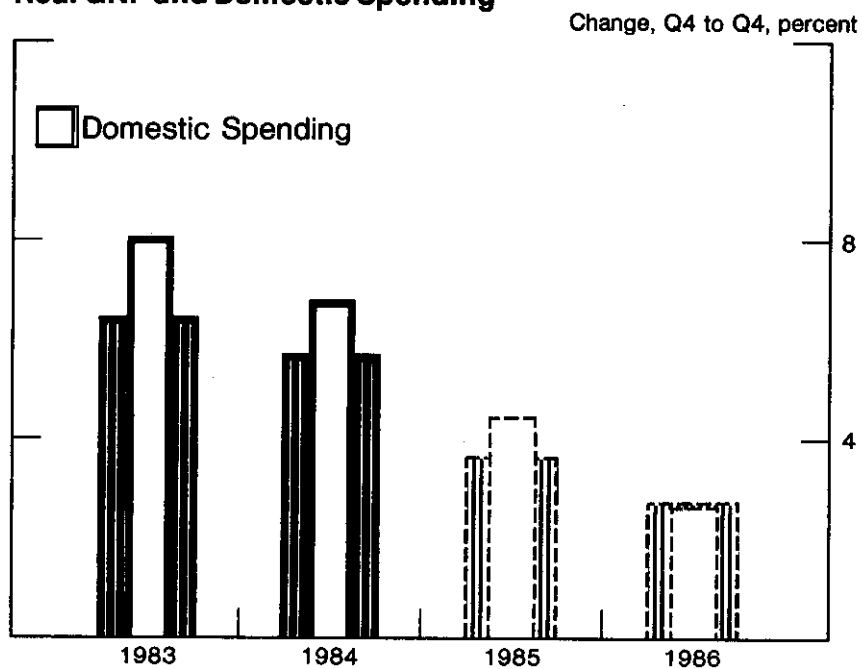


Real Shipments and Orders for Nondefense Capital Goods

Billions of 1972 dollars

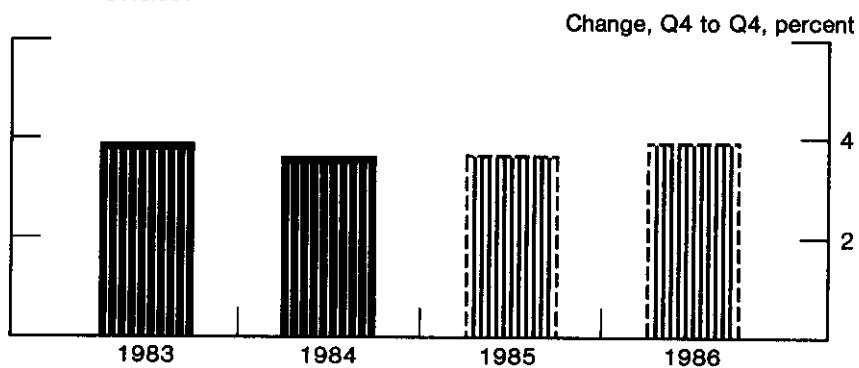


Real GNP and Domestic Spending



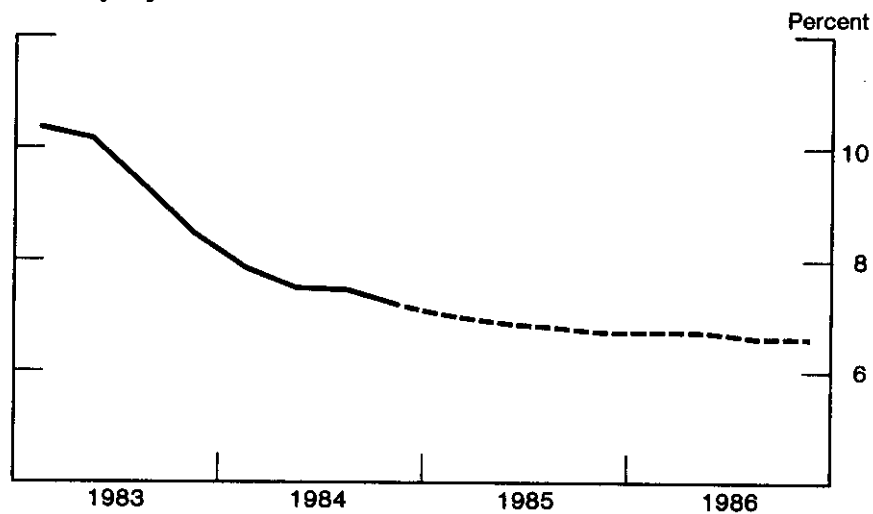
	Real GNP	Real Domestic Spending
1983	6.4	8.0
1984	5.6	6.7
1985	3.6	4.4
1986	2.7	2.6

GNP Deflator



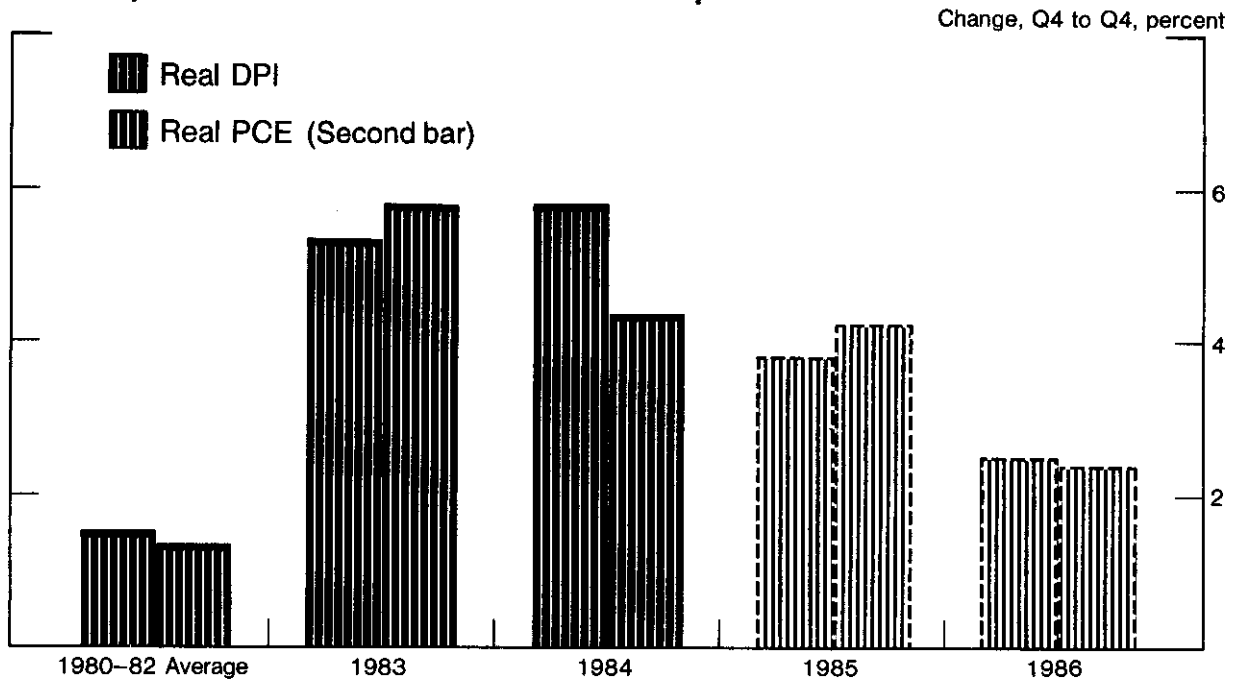
1983	3.8
1984	3.5
1985	3.6
1986	3.9

Unemployment Rate

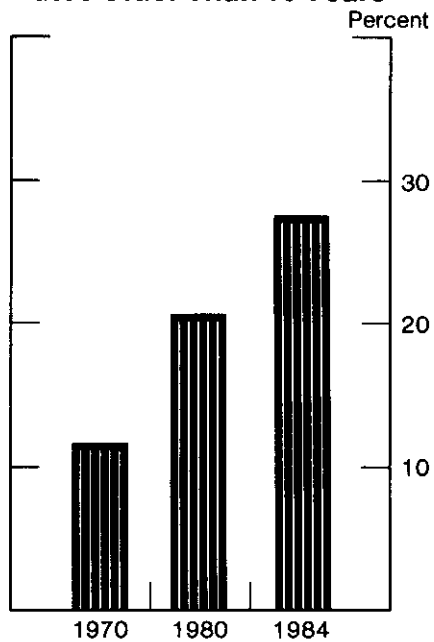


	Q4 Level
1983	8.5
1984	7.2
1985	6.7
1986	6.6

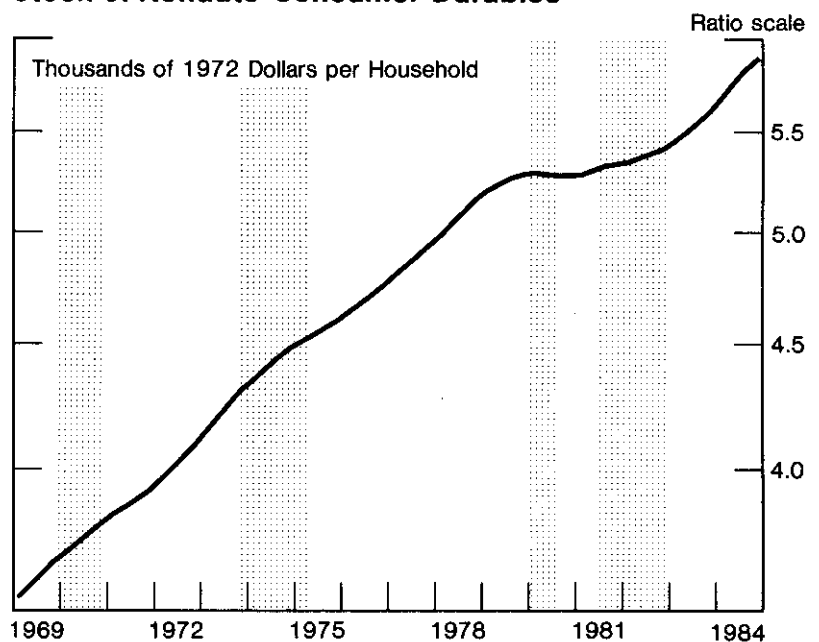
Real Disposable Personal Income and Consumption



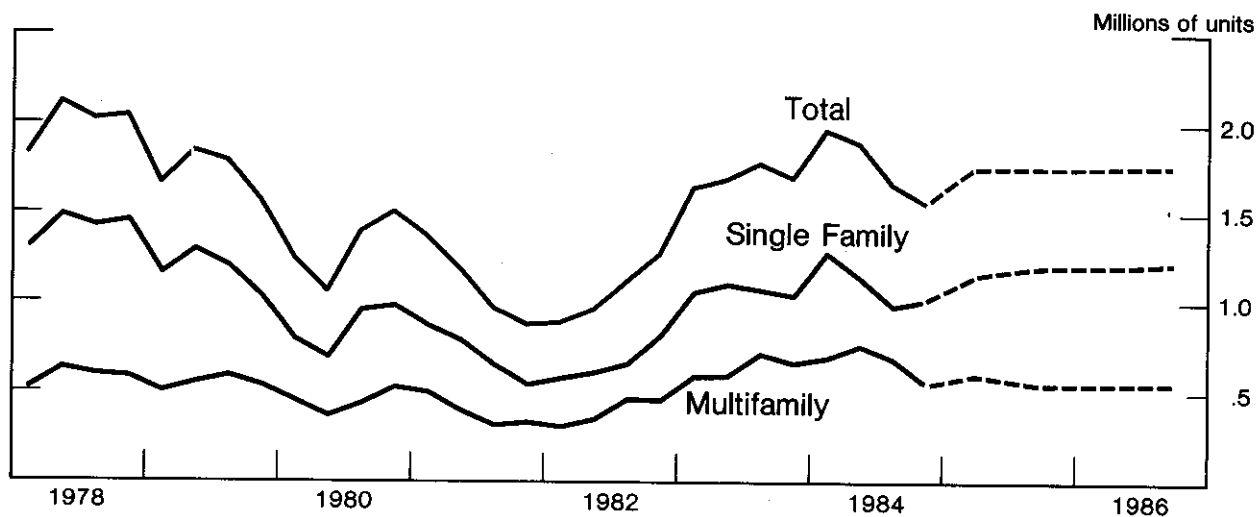
Autos Older Than 10 Years



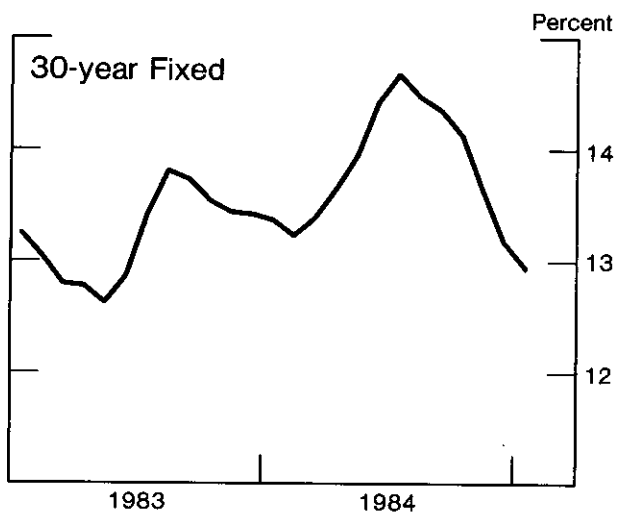
Stock of Nonauto Consumer Durables



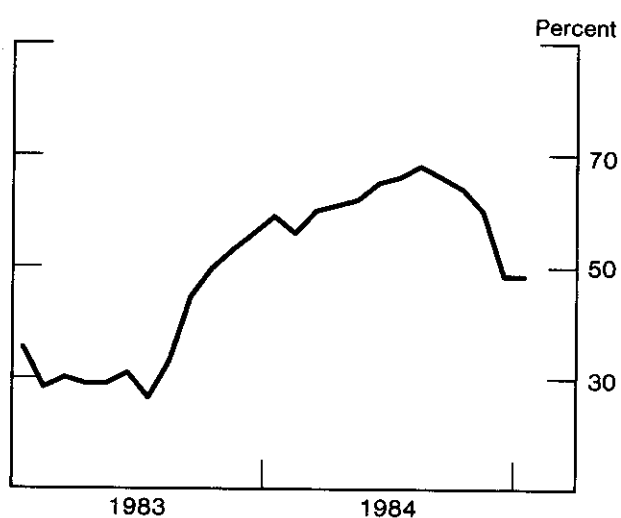
Housing Starts



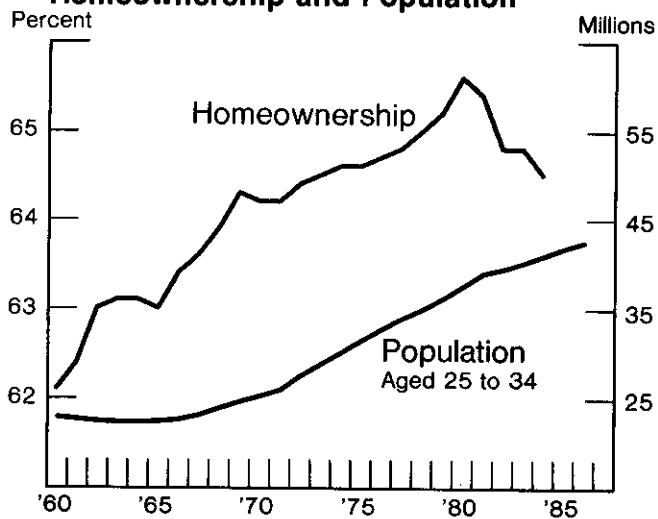
Mortgage Commitment Rate



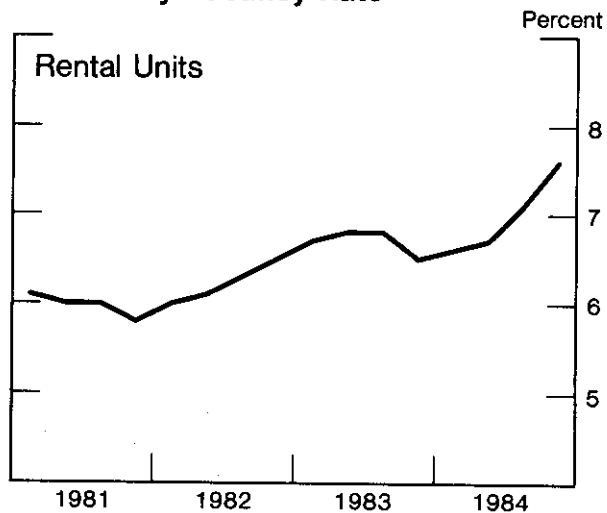
Proportion of ARMs



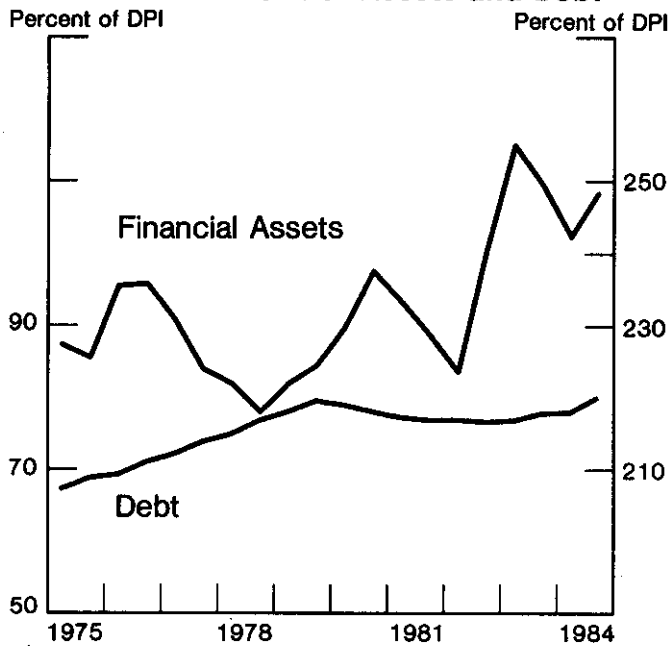
Homeownership and Population



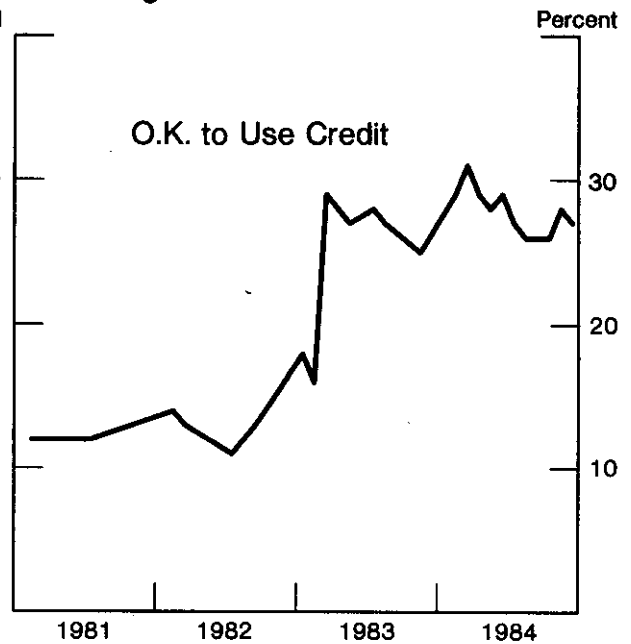
Multifamily Vacancy Rate



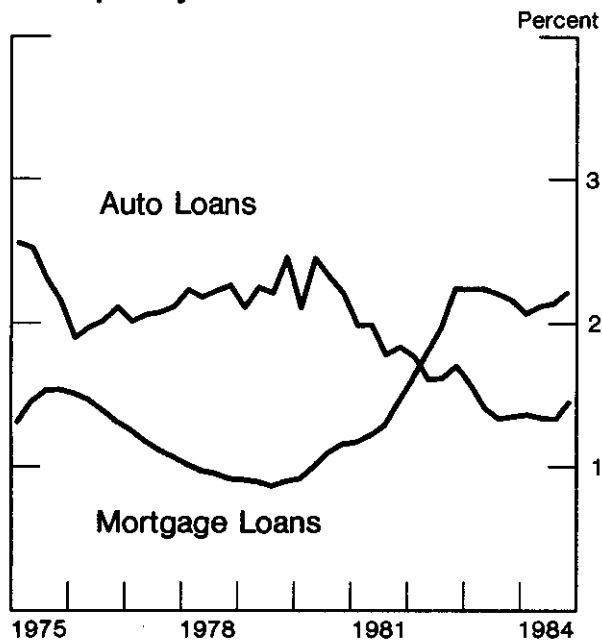
Household Financial Assets and Debt



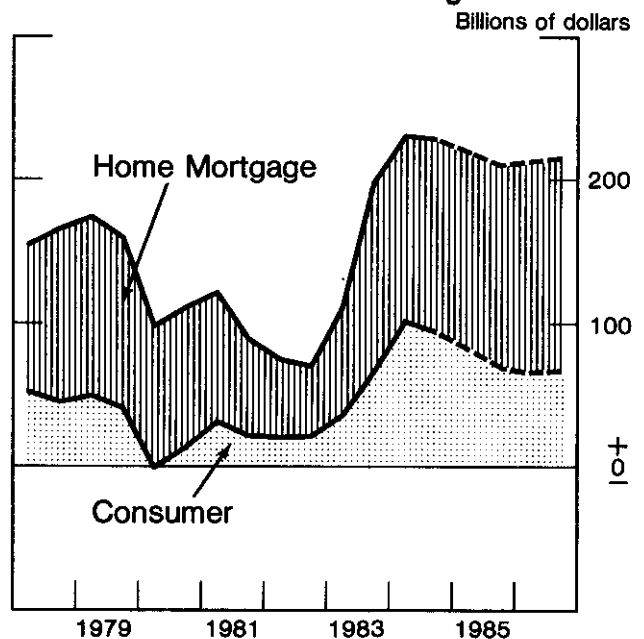
Borrowing Sentiment



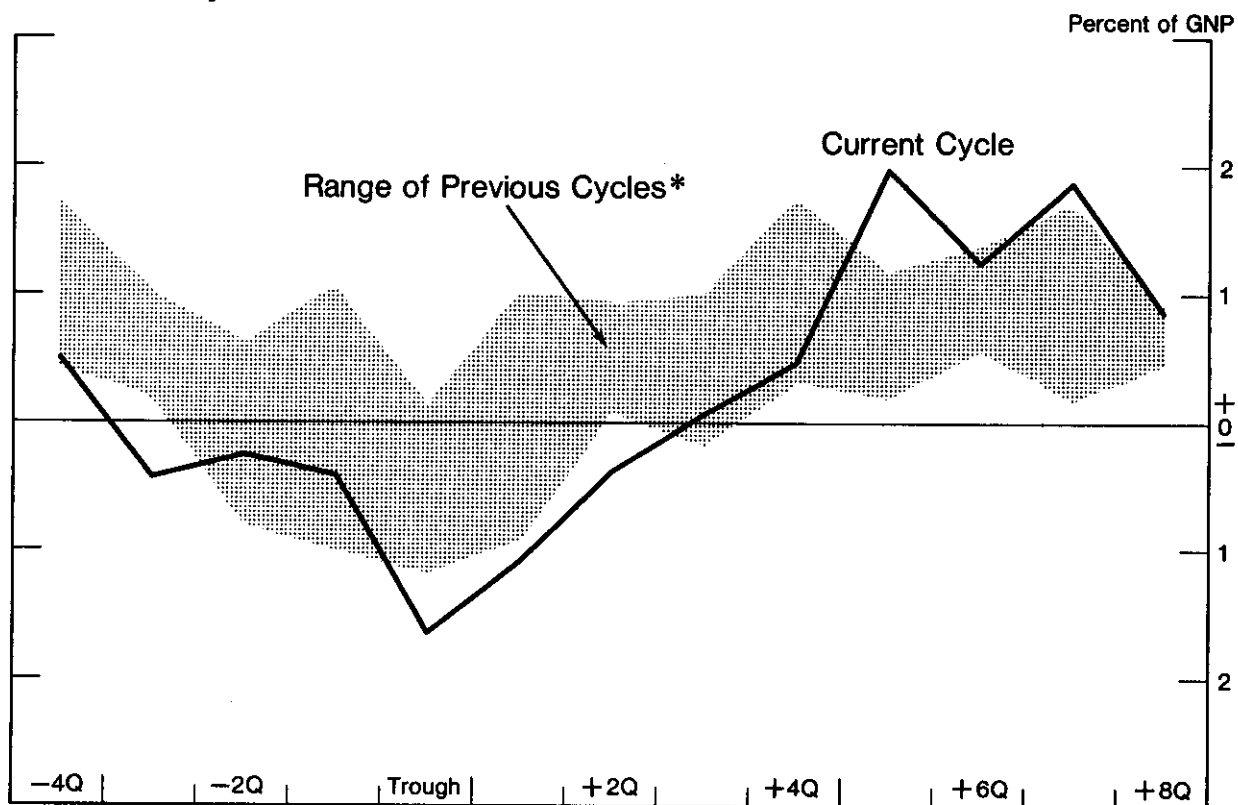
Delinquency Rates



Selected Household Borrowing



Real Inventory Investment

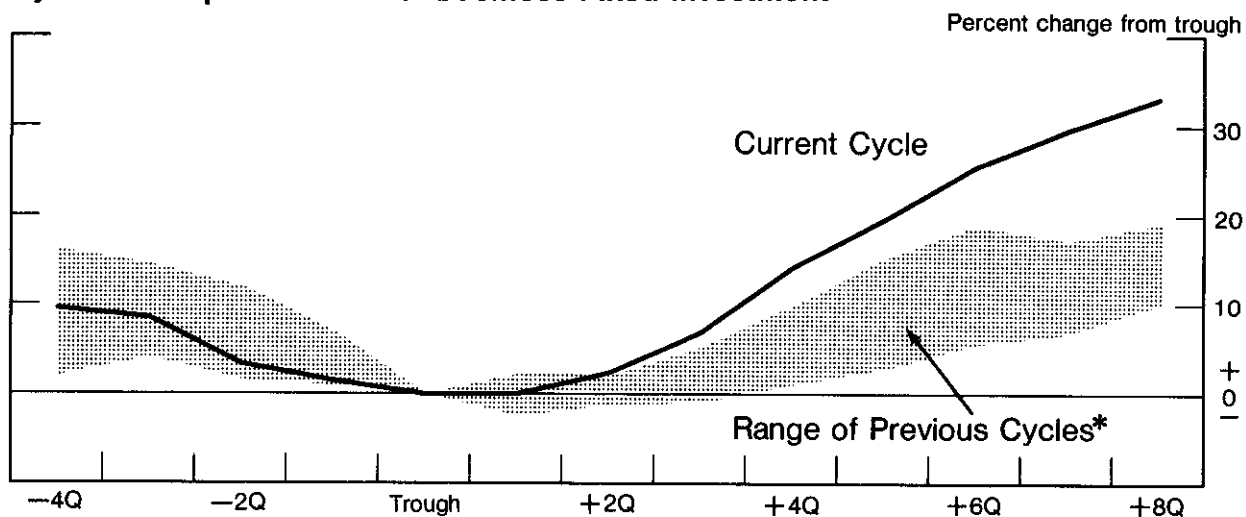


Contribution to Real GNP Growth

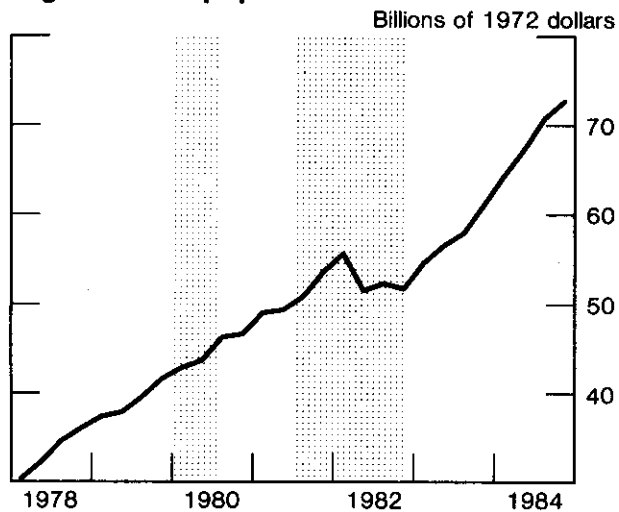
	Percent, annual rate	
	Real GNP Growth	Contribution of Inventory Investment
1982	-1.5	-2.1
1983 H1	6.3	2.5
H2	6.4	1.7
1984 H1	8.6	1.7
H2	2.7	-0.7
1985	3.6	0
1986	2.7	0

*Excludes cycles with troughs in 1949 and 1980.

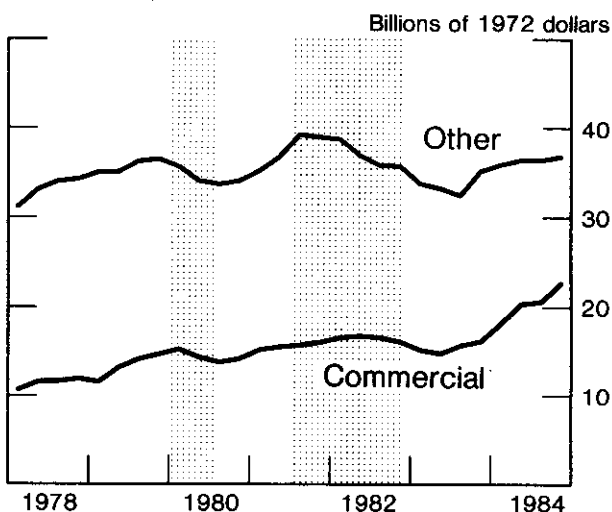
Cyclical Comparison of Real Business Fixed Investment



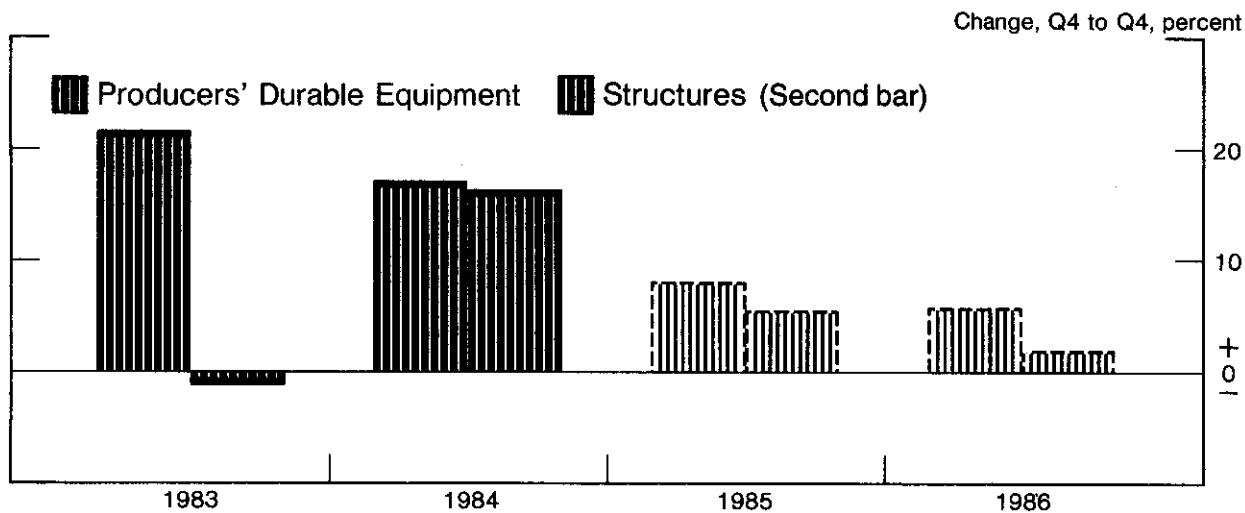
High-Tech Equipment



Structures



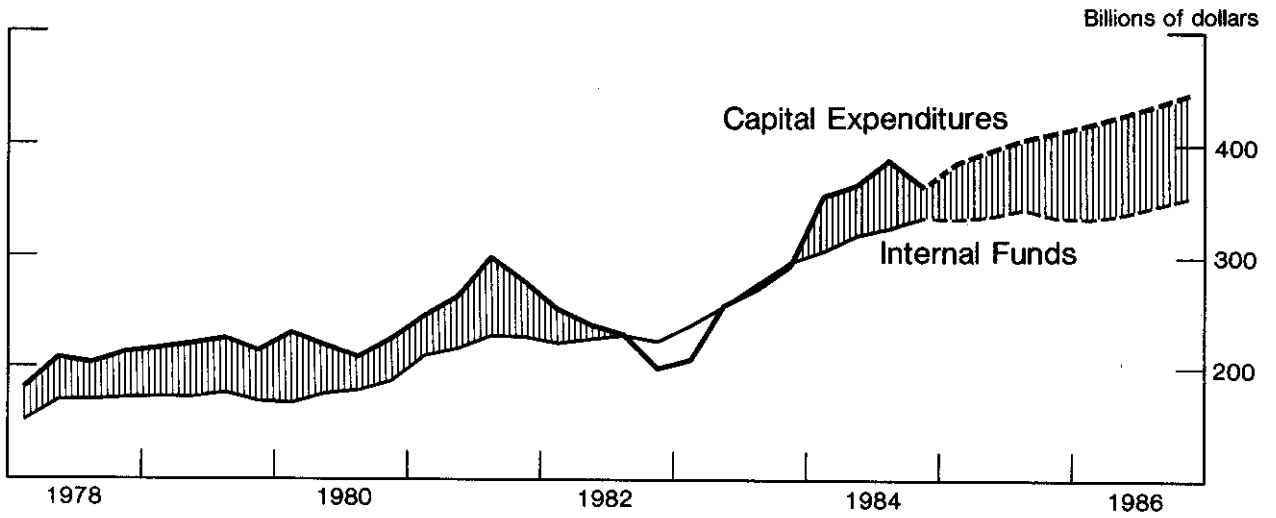
Real Business Fixed Investment



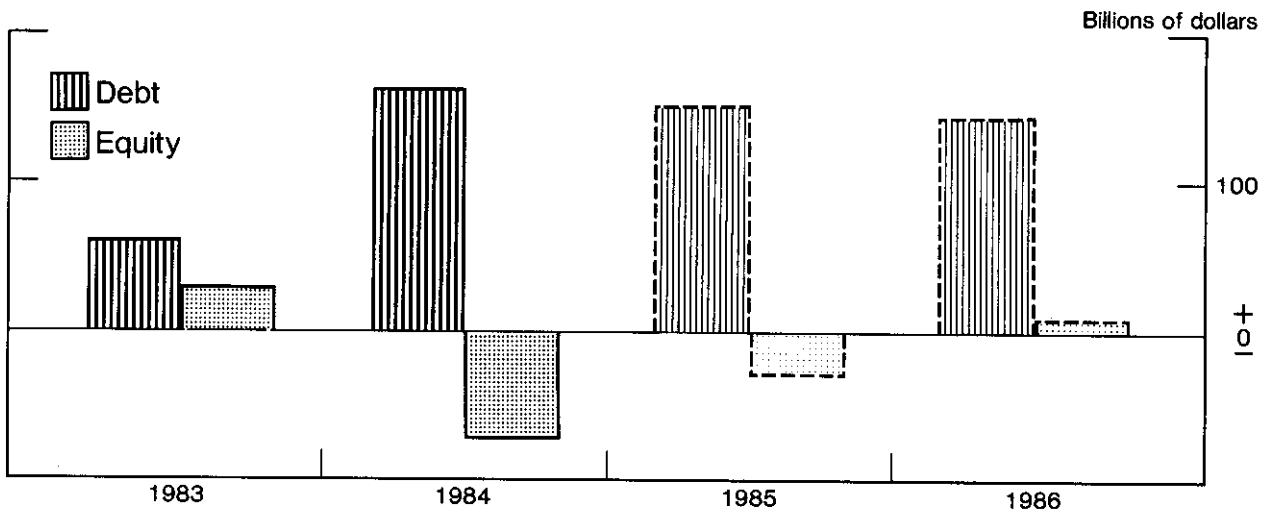
* Excludes cycles with troughs in 1949 and 1980.

Nonfinancial Corporations

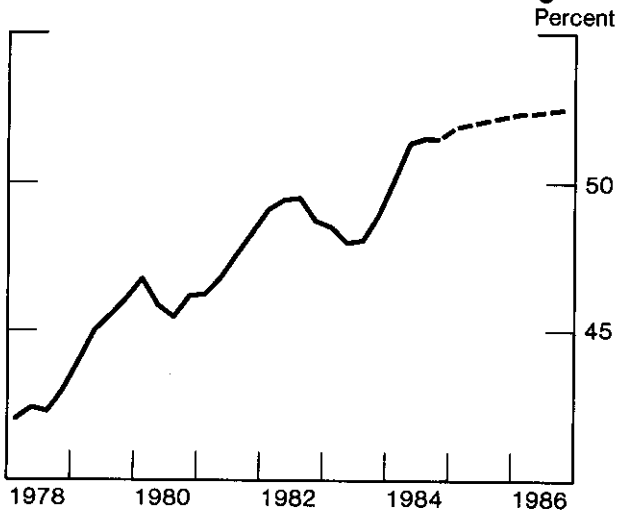
Financing Gap



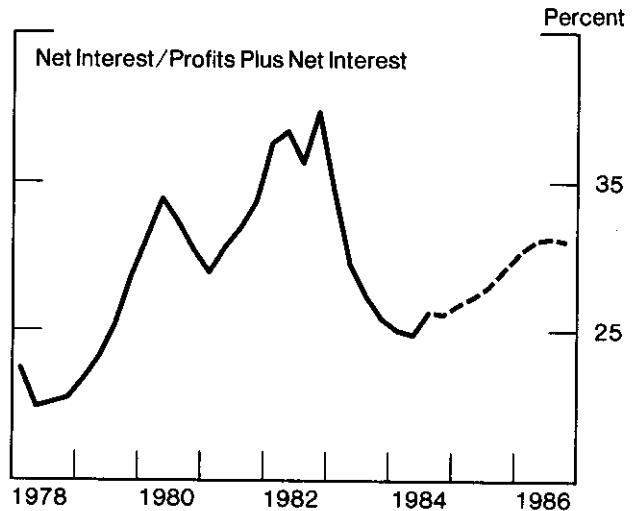
Total Funds Raised



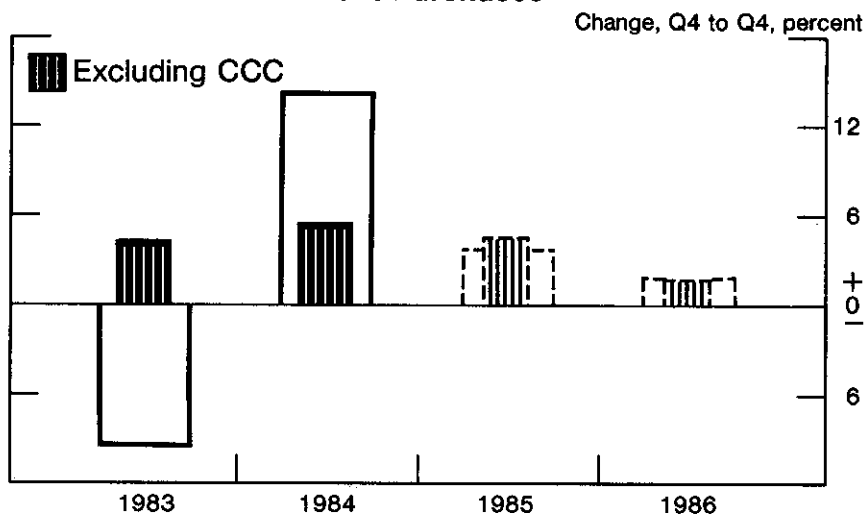
Short-term to Total Debt Outstanding



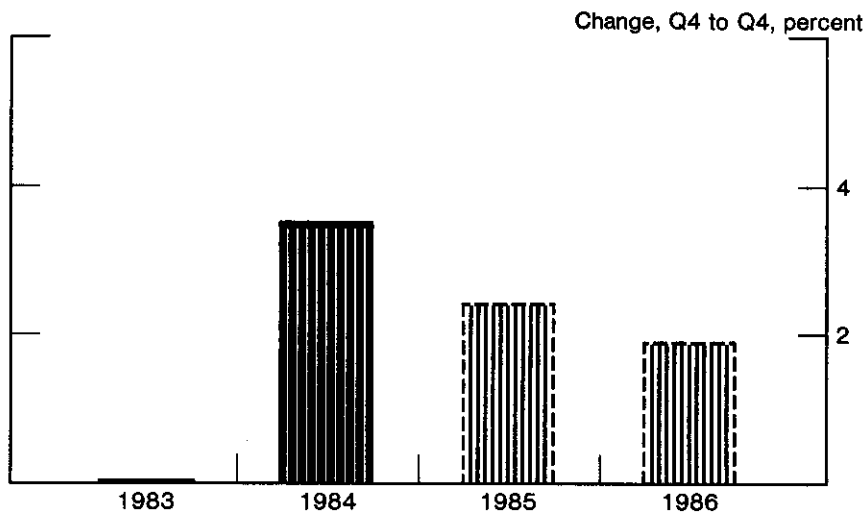
Interest Relative to Income



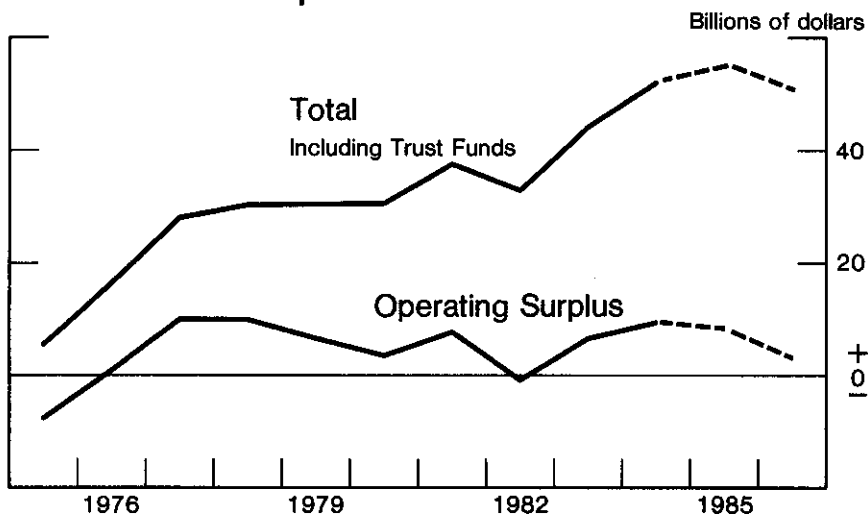
Real Federal Government Purchases



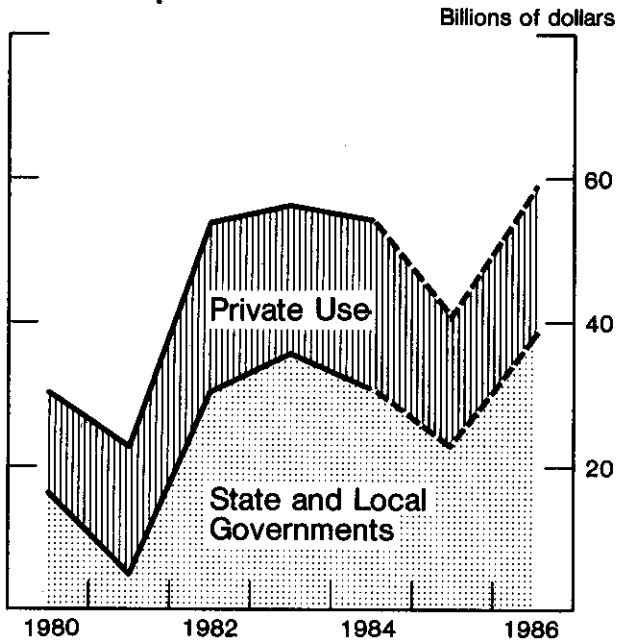
Real State and Local Government Purchases



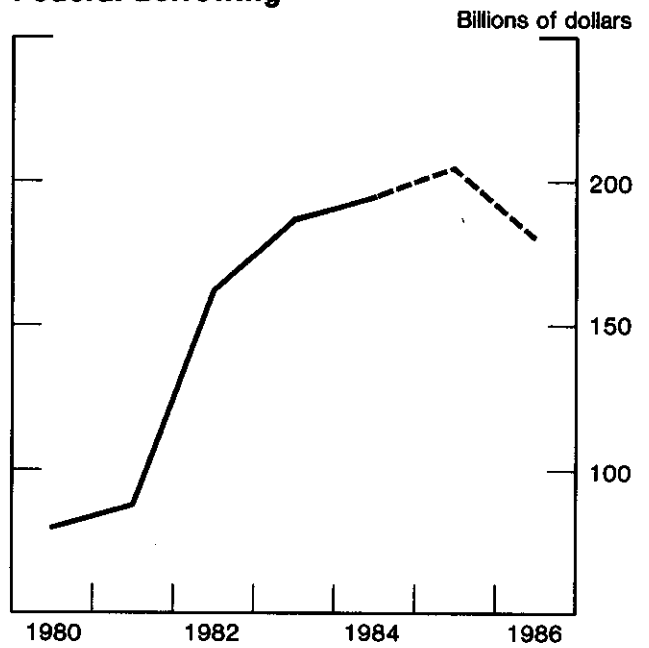
State and Local Surplus



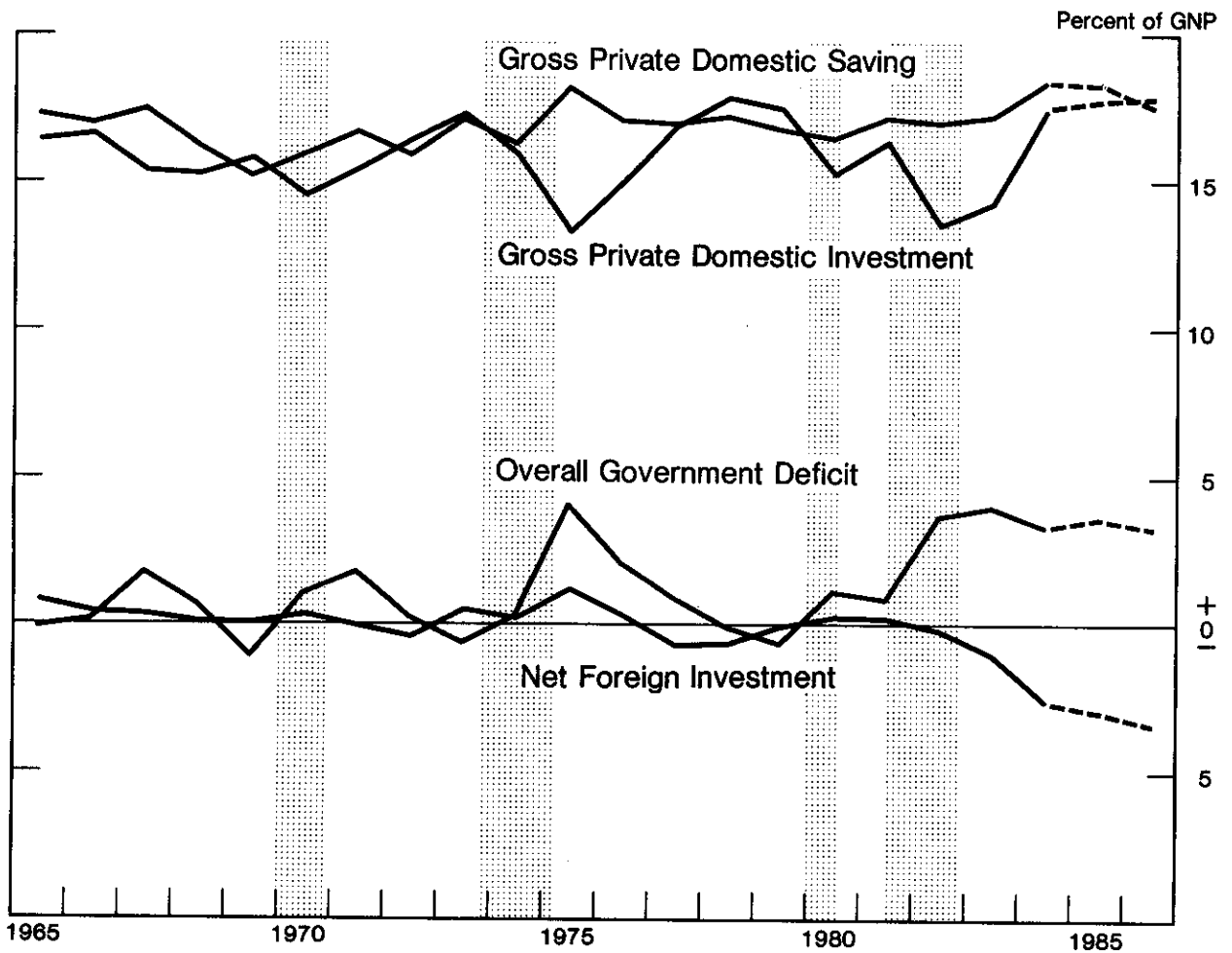
Tax-Exempt Debt Issuance



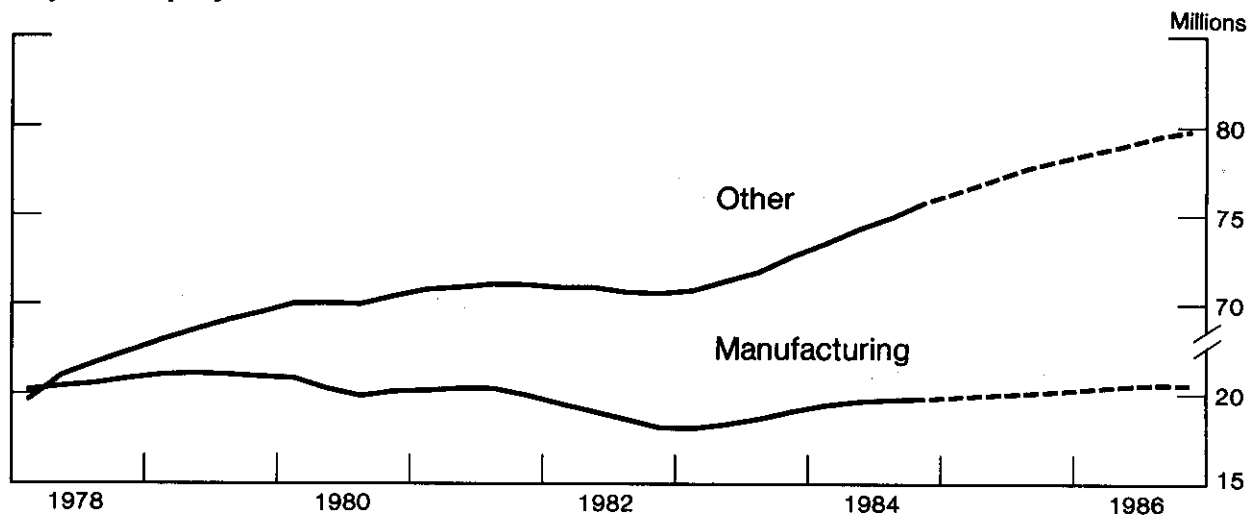
Federal Borrowing



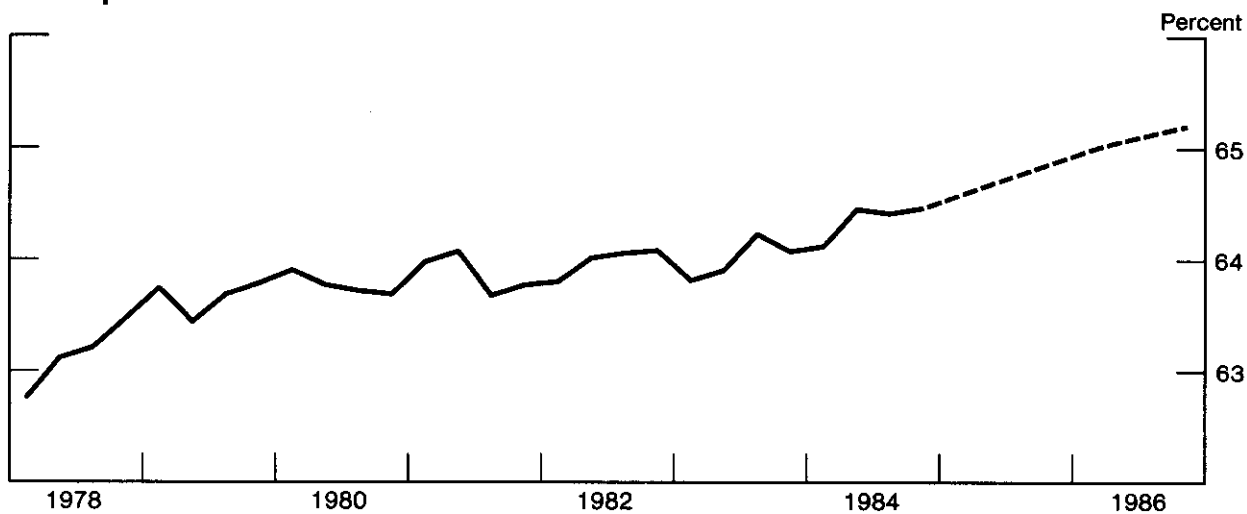
Sector Savings Flows



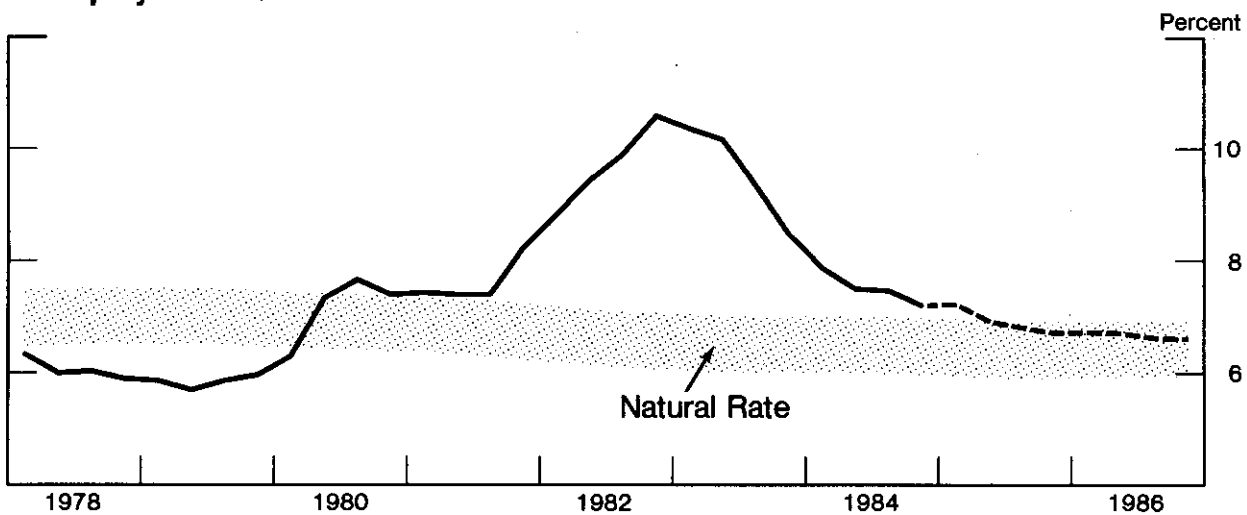
Payroll Employment



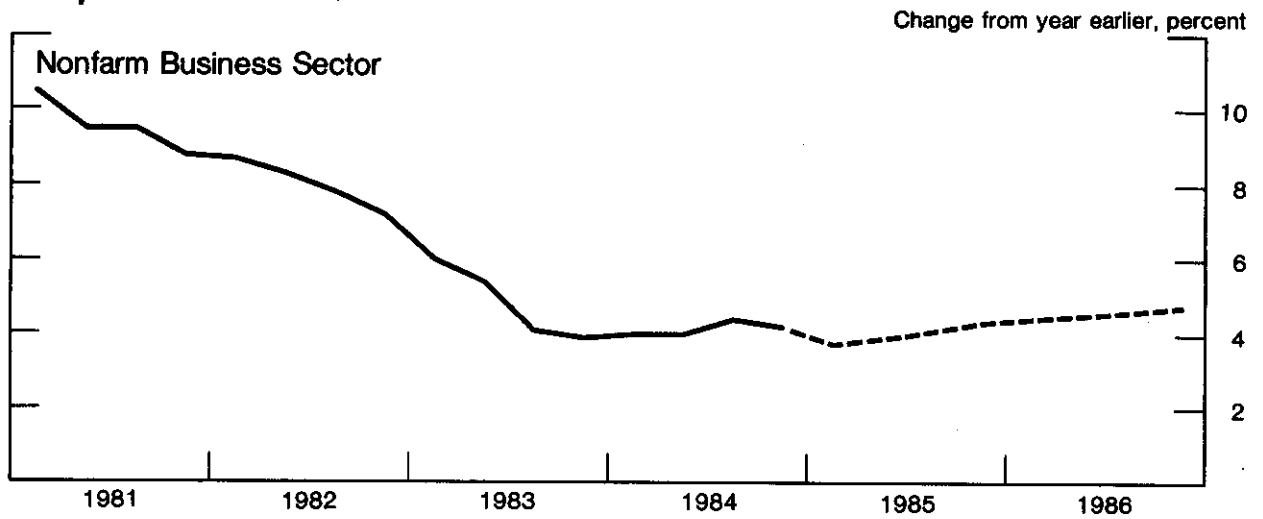
Participation Rate



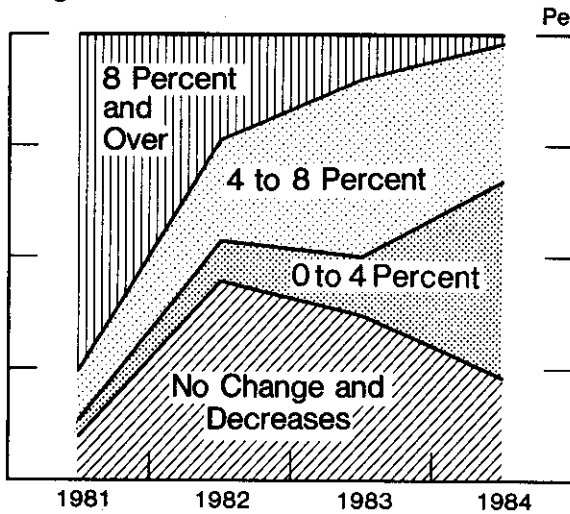
Unemployment Rate



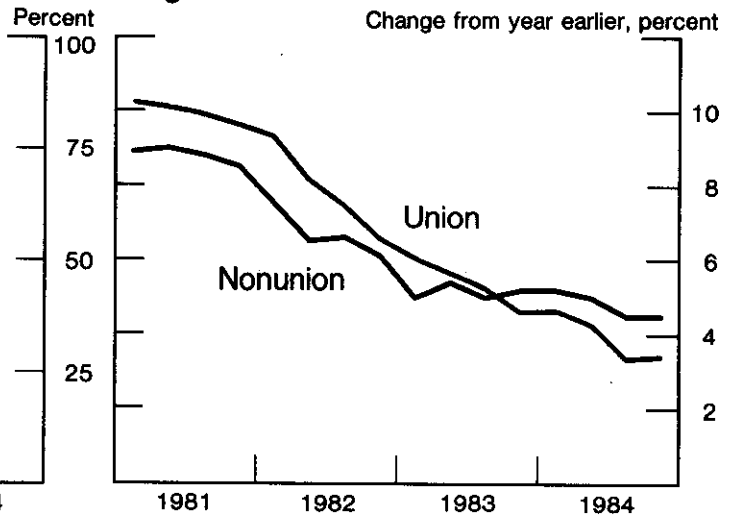
Compensation Per Hour



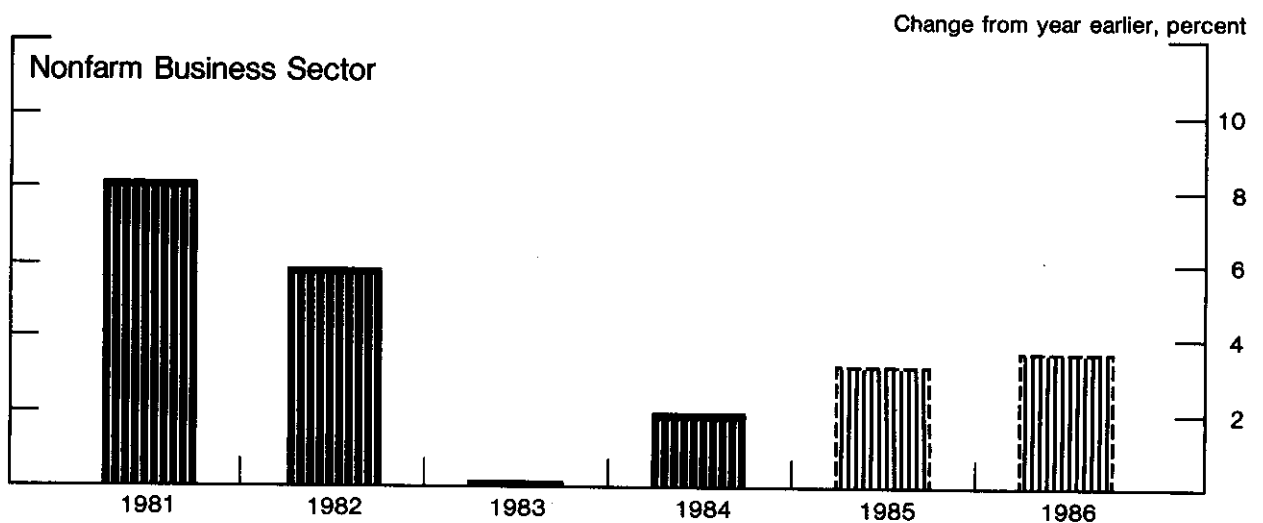
Wage Settlements



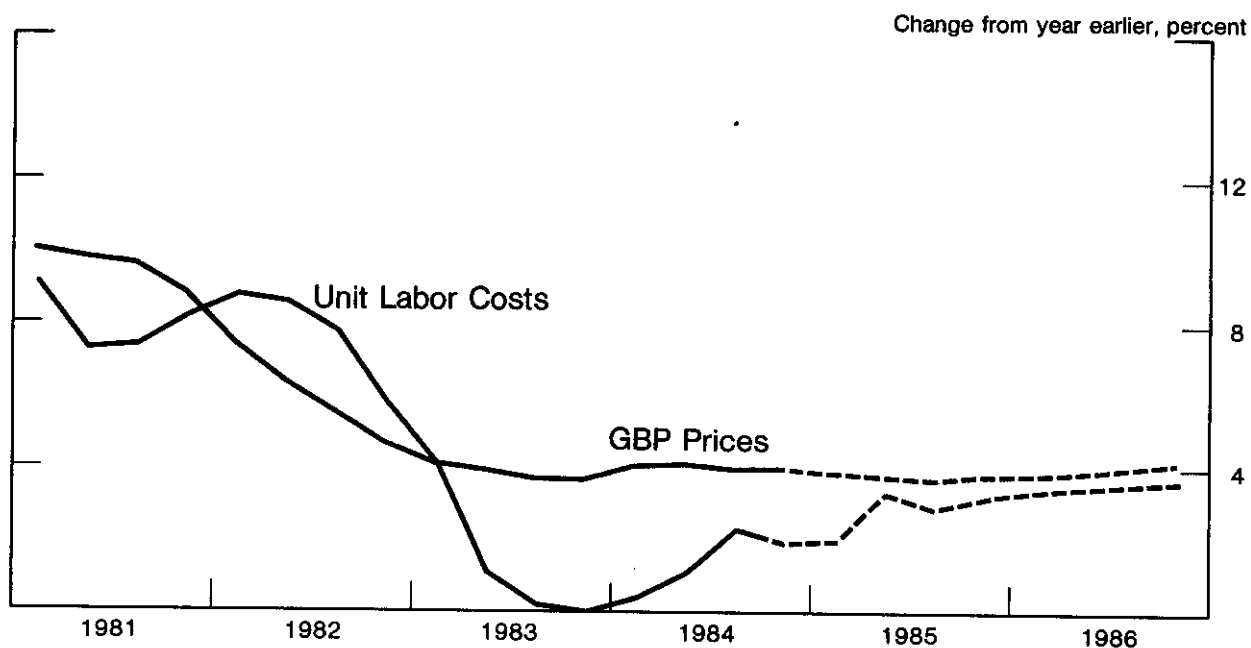
Wage Rates



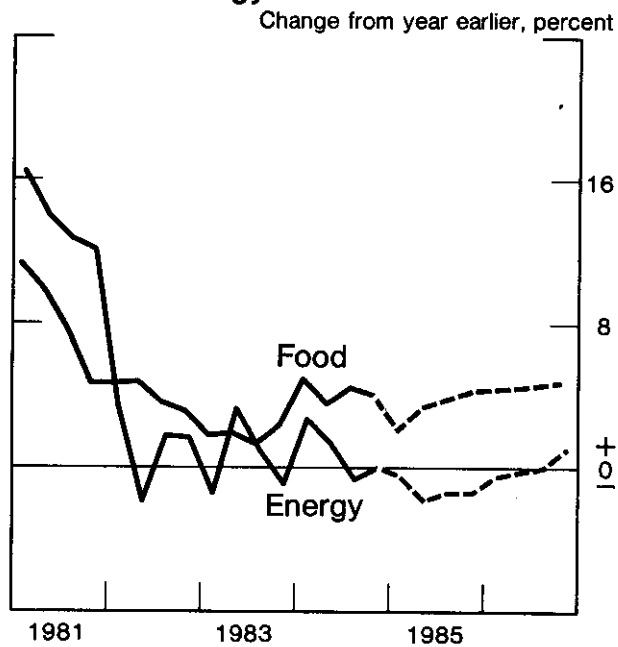
Unit Labor Costs



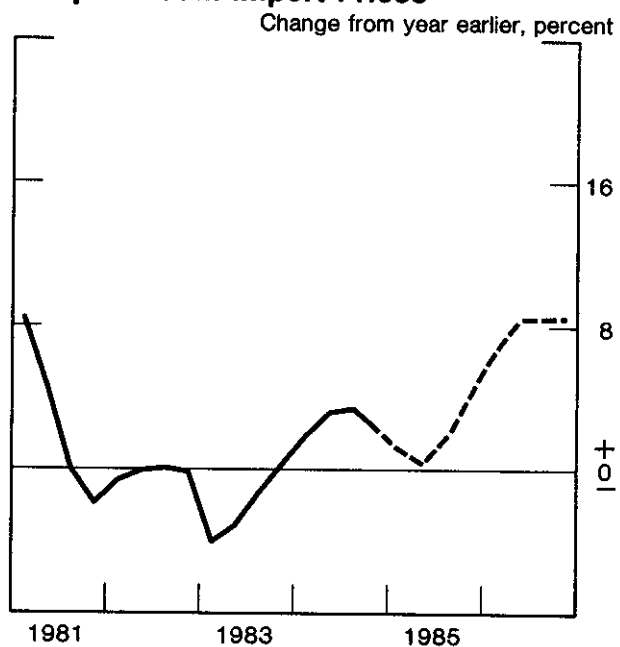
Gross Business Product Prices and Unit Labor Costs



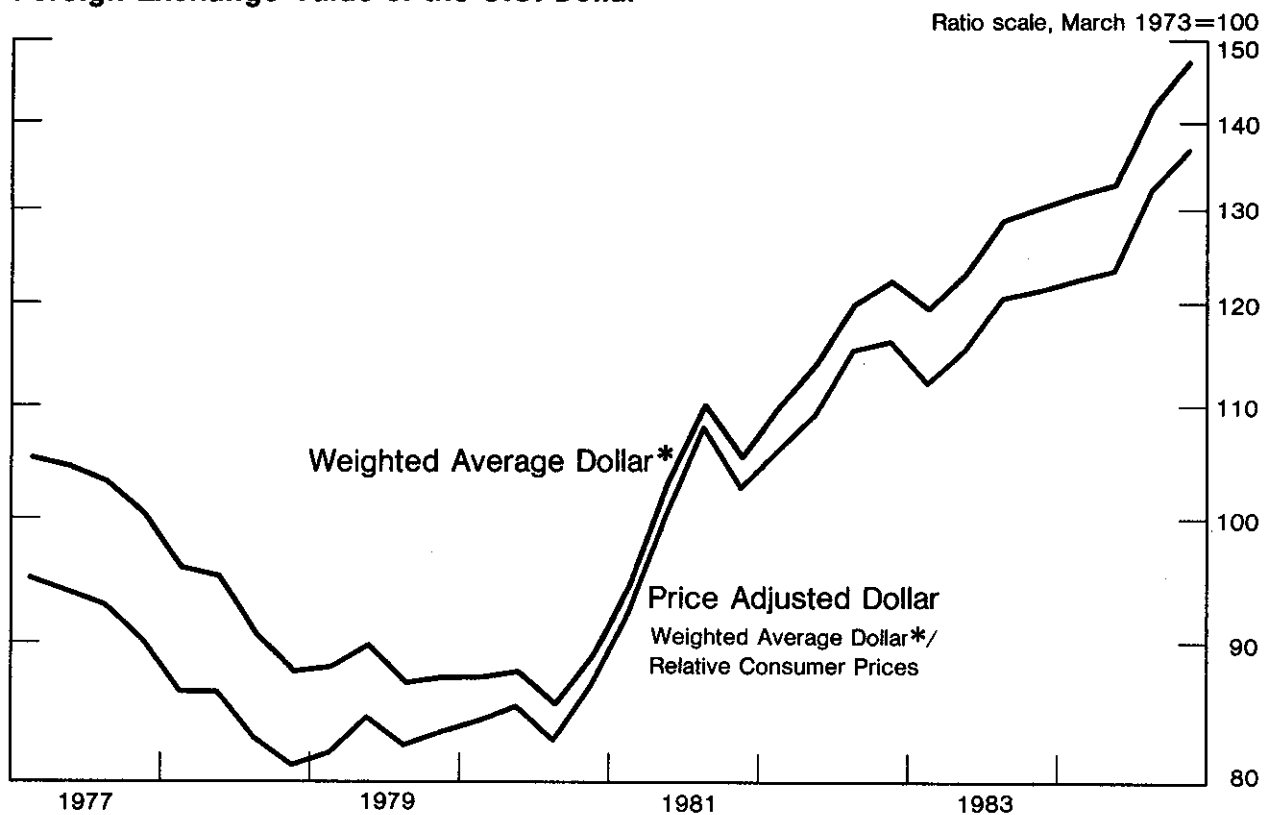
Food and Energy Prices



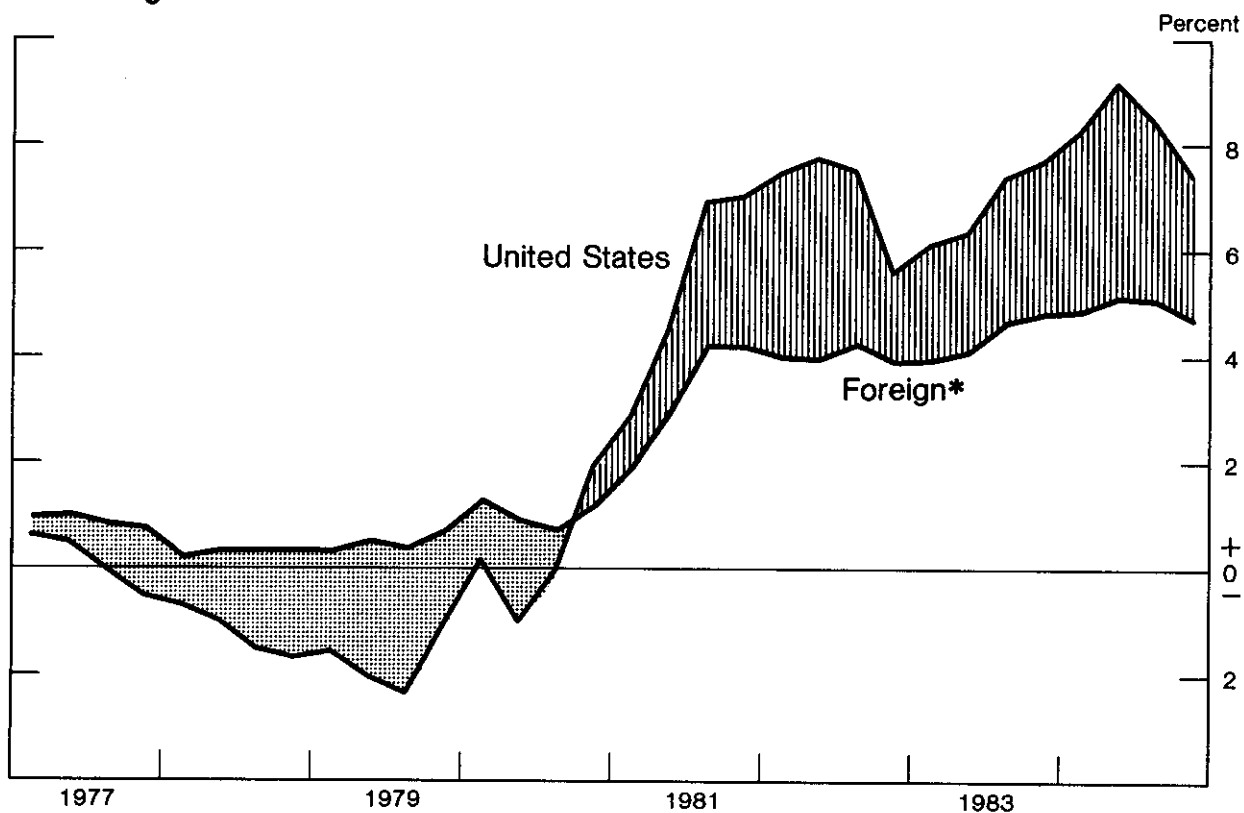
Nonpetroleum Import Prices



Foreign Exchange Value of the U.S. Dollar



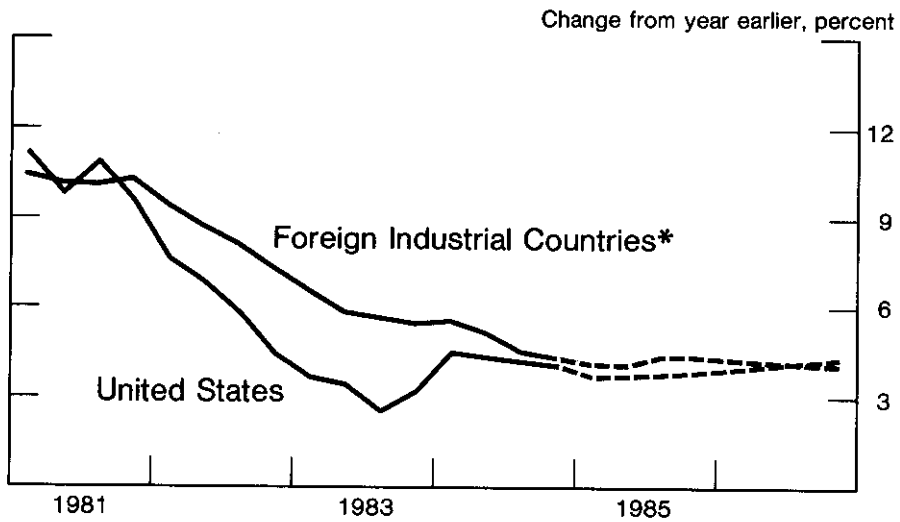
Real Long-term Interest Rates**



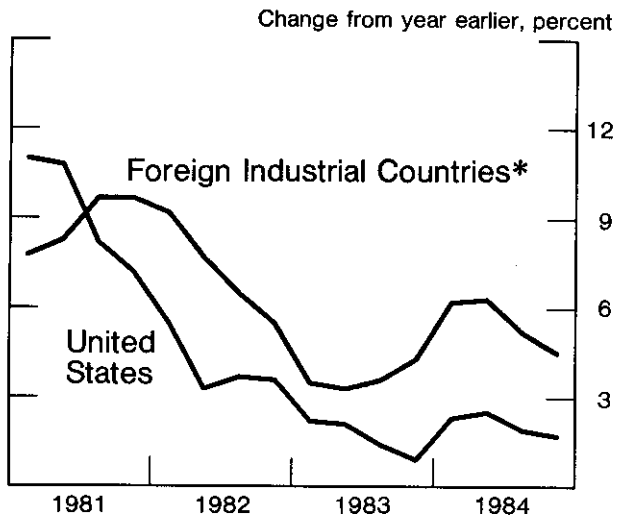
* Weighted average against or of foreign G-10 countries.

** Long-term government or public authority bond rates adjusted for expected inflation estimated by a 36-month centered moving average of actual inflation (staff forecasts where needed).

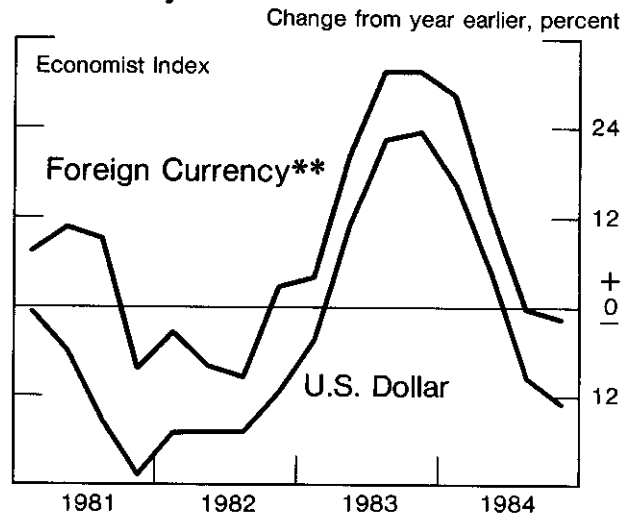
Consumer Prices



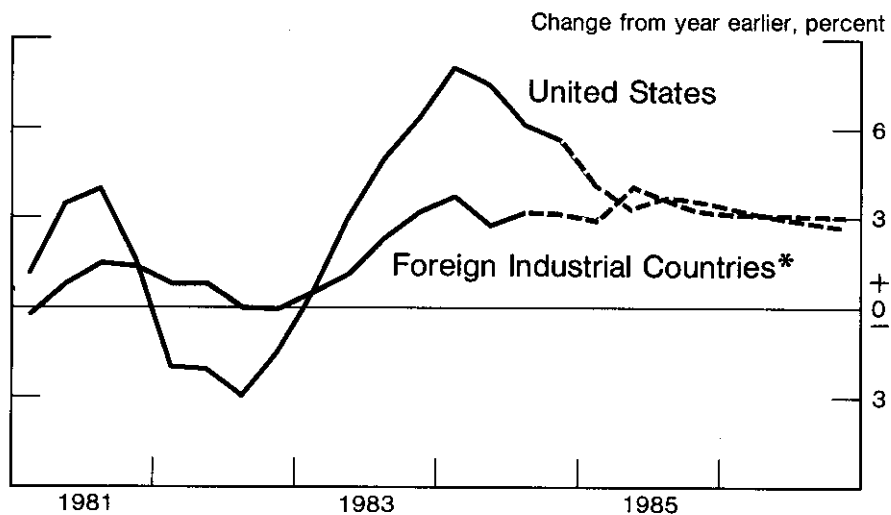
Wholesale Prices



Commodity Prices



Real GNP

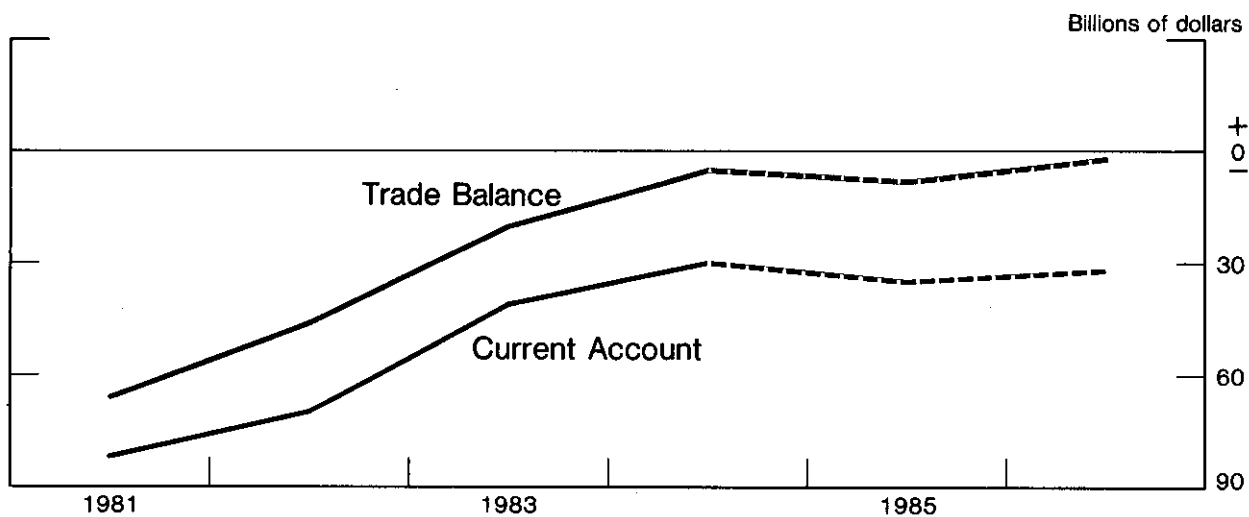


*Weighted average of the six major foreign industrial countries using total 1972-76 average trade of these countries.

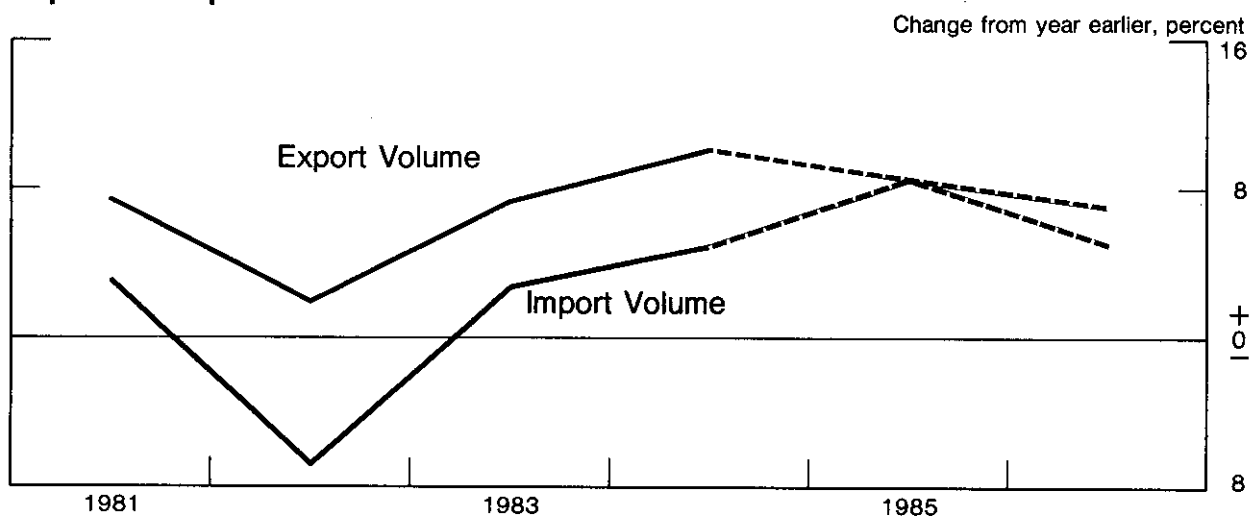
**U.S. dollar index multiplied by the index of the weighted average value of the dollar against G-10 currencies.

Non-OPEC Developing Countries

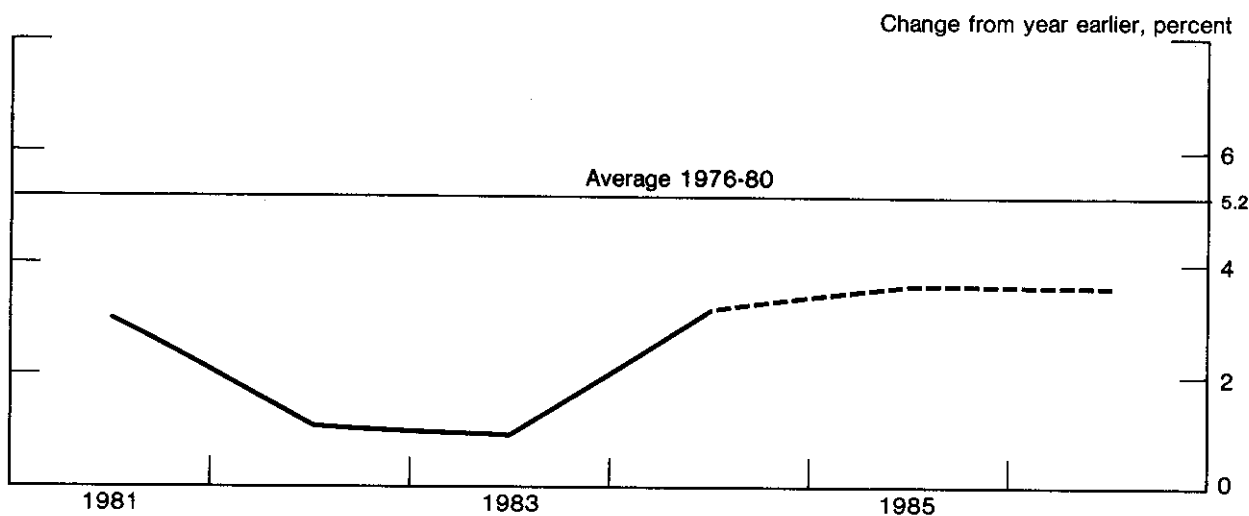
External Balances



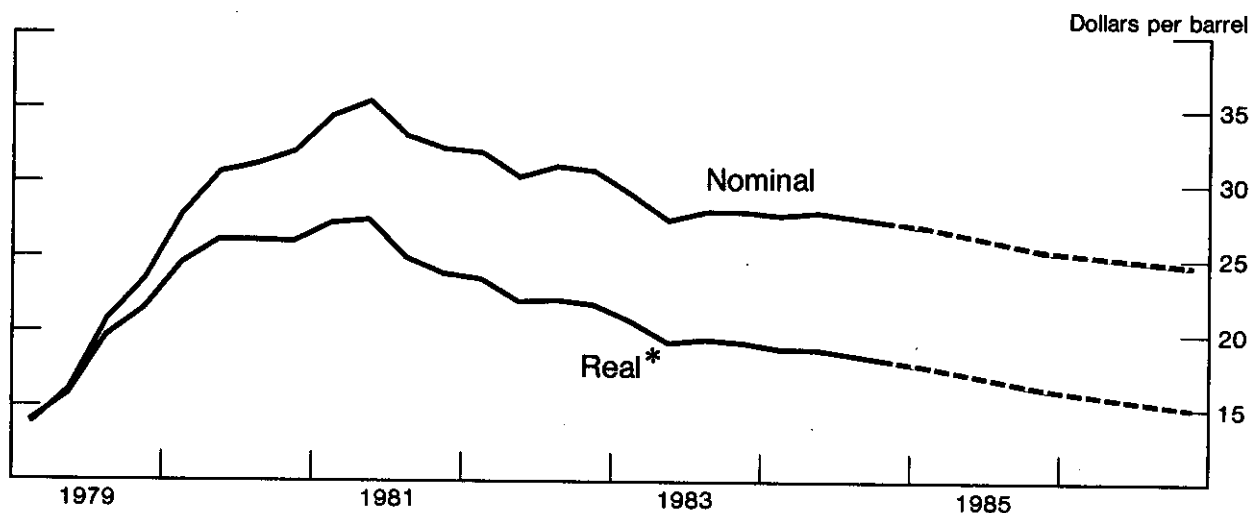
Export and Import Growth



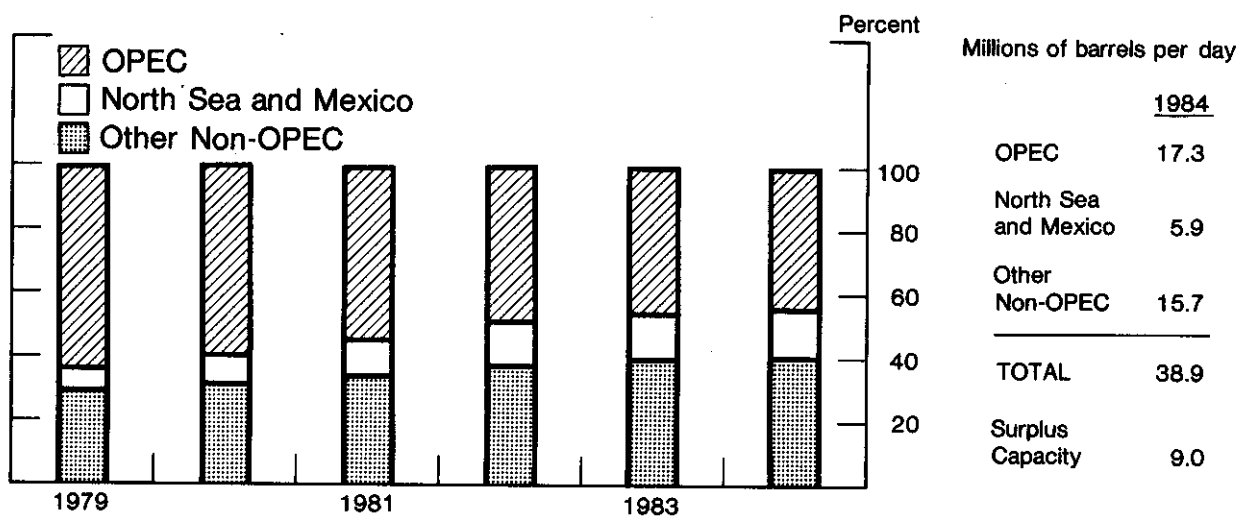
Real GDP Growth



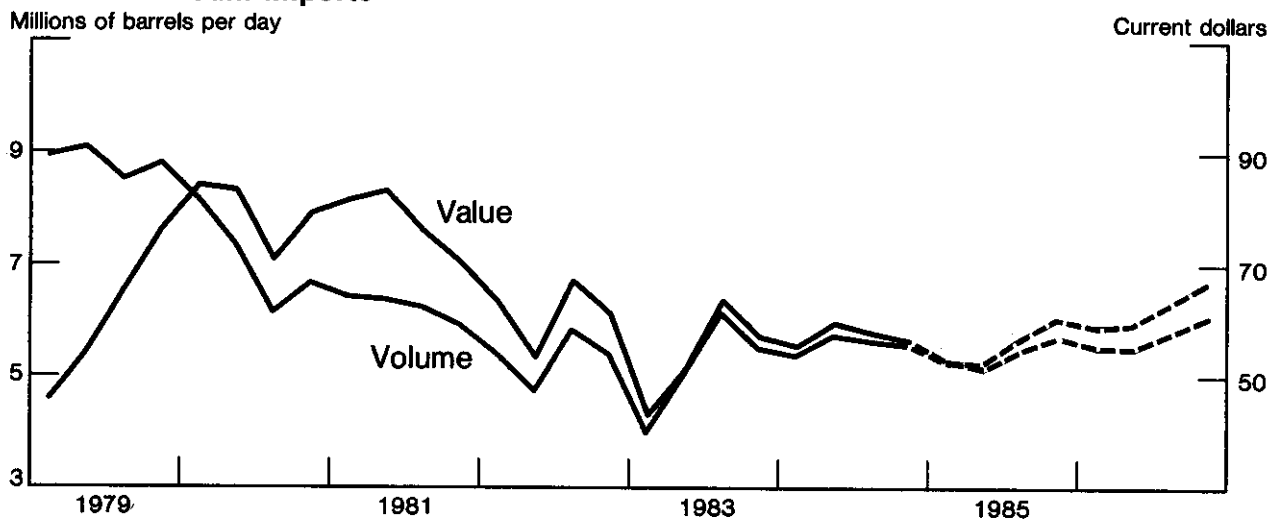
U.S. Oil Import Price



Non-Communist World Crude Production



U.S. Petroleum Imports

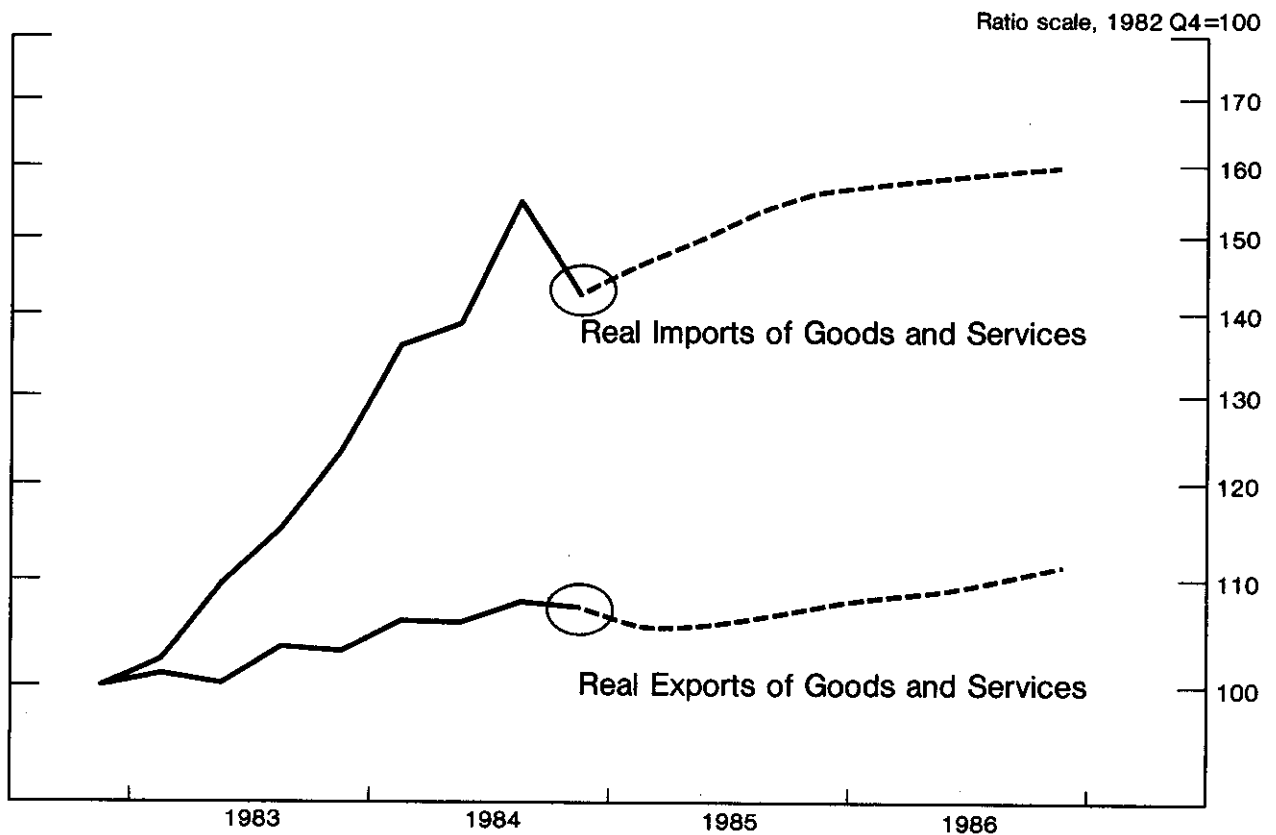


*Oil import price divided by U.S. CPI (1979 Q1=1.0).

Real Imports and Exports of Goods and Services

Expansion Eight Quarters After The Cyclical Trough
(percent)

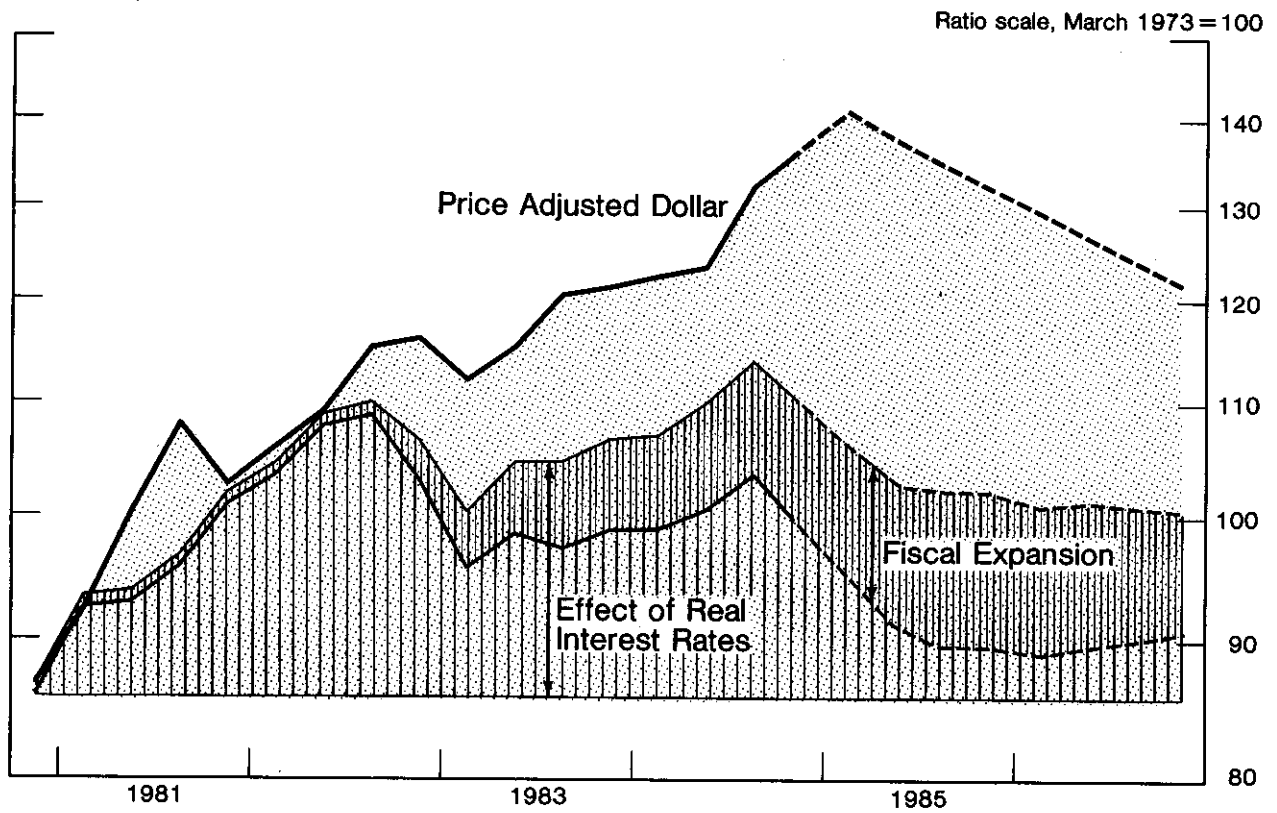
	Current Cycle (to 1984 Q4)	1975 Cycle	Average of 5 Past Cycles*
1. Imports of Goods and Services	42.4	23.4	17.8
2. Goods	46.1	30.6	23.6
3. Services	34.6	7.3	8.1
4. Exports of Goods and Services	7.3	6.7	13.3
5. Goods	11.4	1.7	10.7
6. Services	2.5	15.8	18.9



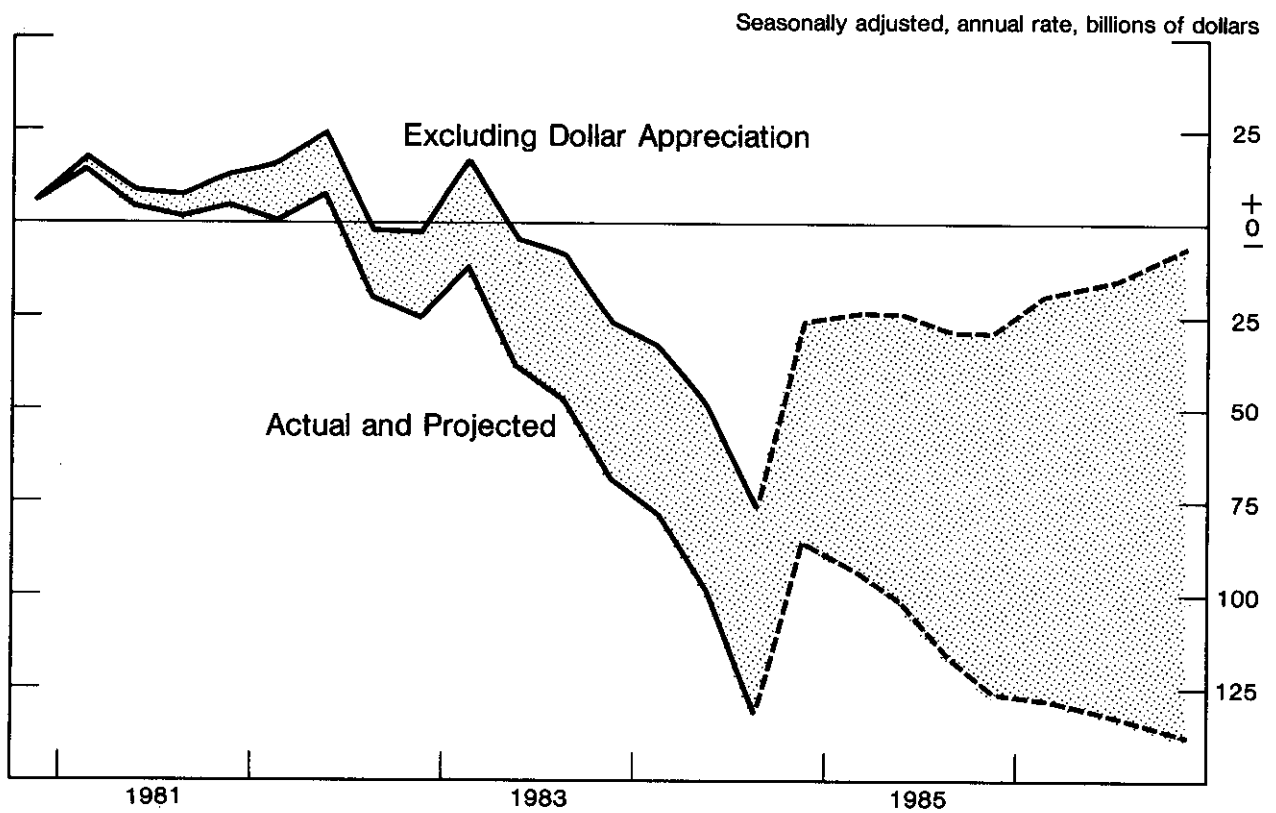
Note: Data for 1984 Q4 are FR staff estimates.

*Includes cycles of 1954, 1958, 1961, 1970 and 1975.

Price Adjusted Dollar



U.S. Current Account



U.S. Capital Transactions
(Billions of Dollars; Net Inflows = +)

	1982	1983	1984 ^e	1985 ^p
1. Net Private and Official Capital Flows	- 24	32	79	89
2. Private Capital Flows	- 16	33	90	89
3. U.S. Banking Offices	- 45	24	30	30
4. Bonds and Stocks	14	13	35	40
5. Direct Investment and Other Non-Bank Flows	15	- 4	25	19
6. U.S. and Foreign Official Transactions	- 8	- 1	- 9	0
7. Statistical Discrepancy	33	10	20	20
8. Balance on Current Account	- 9	- 42	- 99	- 109

^e Estimated

^p Projected

Some Risks and Uncertainties

	Staff Estimate or Assumption
Trend Productivity Growth	1¼ to 1½ percent
Natural Rate of Unemployment	6½ percent
Exchange Rate	8 percent per year decline
Oil Prices	10 percent decline over forecast period
Fiscal Policy	\$50 billion deficit reduction

Forecast Summary for 1985

	Board Members		Presidents		Staff	Adminis- tration
Percent change, Q4 to Q4	Range	Median	Range	Median		
Nominal GNP	7 to 8¼	7½	7¼ to 8¾	8	7¼	8½
Real GNP	3¼ to 4¼	3¾	3 to 4½	4	3½	4
GNP Deflator	3 to 4½	4	3½ to 4¾	4	3½	4¼
Average level, Q4, percent						
Unemployment Rate	6¾ to 7¼	7	6½ to 7¼	7	6¾	7

FOMC Projections for 1985

Reported to Congress in July 1984

	Range	Central Tendency
Percent change, Q4 to Q4		
Nominal GNP	6¾ to 9½	8 to 9
Real GNP	2 to 4	3 to 3¼
GNP Deflator	3½ to 6½	5¼ to 5½
Average level, Q4, percent		
Unemployment Rate	6¼ to 7¼	6½ to 7